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April 1, 2014

**VIA ELECTRONIC FILING**

Jocelyn G. Boyd  
Chief Clerk / Administrator  
Public Service Commission of South Carolina  
101 Executive Center Drive, Suite 100  
Columbia, South Carolina 29211

**RE: Application Regarding the Acquisition of Progress Energy, Incorporated by  
Duke Energy Corporation and Merger of Progress Energy Carolinas,  
Incorporated and Duke Energy Carolinas, LLC  
PSC Docket Nos. 2011-158-E**

Dear Mrs. Boyd:

Pursuant to Order No. 2012-517 Approving Joint Dispatch Agreement and Regulatory Condition 5.5(c), please find the 2014 Cost Allocation Manual filed in North Carolina for Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, Inc. ("DEP"). Additionally, DEC and DEP have reviewed the appropriateness of the allocation bases and have determined that such allocation bases continue to be appropriate and are in accordance with Commission-approved allocation methods.

If there are questions about the reports, please let me know.

Sincerely,

Timika Shafeek-Horton  
Deputy General Counsel

TSH/bml

Enclosure

cc: Shannon B. Hudson, ORS  
Jeffrey M. Nelson, ORS  
John W. Flitter, ORS  
Parties of Record

**Duke Energy Carolinas, LLC (DEC)  
and  
Duke Energy Progress Inc. (DEP)**

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**Cost Allocation  
Manual - 2014**



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## **A. INTRODUCTION**

This Carolinas' Cost Allocation Manual (CAM) documents the guidelines and procedures for allocating costs between the different business units impacting DEC and DEP. The guidelines are intended to provide the foundation for proper identification and recording of transactions involving the exchange of services or goods between DEC/DEP and its Affiliates. These guidelines describe the allocation methods that are consistent with cost causation principles, in order to ensure one Duke Energy entity does not subsidize another.

Per the Regulatory Conditions in Docket No. E-2, Sub 998 and Docket No. E-7, Sub 986 by Order of the North Carolina Utilities Commission issued June 29, 2012, the following merger conditions apply to the CAM:

- Section 5.5 – Charges for and Allocations of the Costs of Affiliate Transaction. To the maximum extent practicable, all costs of Affiliate transactions shall be directly charged. When not practicable, such costs shall be assigned in proportion to the direct charges. If such costs are of a nature that direct charging and direct assignment are not practicable, they shall be allocated in accordance with Commission-approved allocation methods. The following additional provisions shall apply:
  - (a) DEC and DEP<sup>1</sup> shall keep on file with the Commission a CAM with respect to goods or services provided by DEC or DEP, any Utility Affiliate, DEBS or PESC, any other Non-Utility Affiliate, Duke Energy, and other Affiliates, or any Nonpublic Utility Operation to either DEC or DEP.
  - (b) Each CAM shall describe how all directly charged, direct assignment, and other costs for each provider of goods and services will be charged between and among DEC, DEP, their Utility Affiliates, Non-Utility Affiliates, Duke Energy, any other Affiliates, and the Nonpublic Utility

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<sup>1</sup> Here and throughout this CAM, the abbreviation "PEC" has been replaced with "DEP", as appropriate, for consistency with the name change going forward.

Operations, and shall include a detailed review of the common costs to be allocated and the allocation factors to be used.

- (c) The CAM(s) shall be updated annually, and the revised CAM(s) shall be filed with the Commission no later than March 31 of the year that the CAM(s) are to be in effect. DEC and DEP shall review the appropriateness of the allocation bases every two years, and the results of such review shall be filed with the Commission. Interim changes shall be made to the CAM(s), if and when necessary, and shall be filed with the Commission, in accordance with Regulatory Condition 5.6.
  - (d) No changes shall be made to the procedures for direct charging, direct assigning, or allocating the costs of Affiliate transactions or to the method of accounting for such transactions associated with goods and services (including Shared Services provided by DEBS or PESC) provided to or by Duke Energy, other Affiliates, and the Non-Public Utility Operations until DEC or DEP has given 15 days' notice to the Commission of the proposed changes, in accordance with Regulatory Condition 5.6.
- Section 5.6 – Procedures Regarding Interim Changes to the CAM(s) or Lists of Goods and Services for which 15 Days' Notice is Required. With respect to interim changes to the CAM(s) or changes to lists of goods and services, for which the 15 day notice to the Commission is required, the following procedures shall apply: the Public Staff shall file a response and make a recommendation as to how the Commission should proceed before the end of the notice period. If the Commission has not issued an order within 30 days of the end of the notice period, DEC or DEP may proceed with the changes but shall be subject to any fully adjudicated Commission order on the matter. The provisions of Regulatory Condition 13.2 do not apply to advance notices filed pursuant to Regulatory Condition 5.5(c) and (d). Such advance notices shall be filed in Docket Nos. E-7, Sub 986A, and E-2, Sub 998A.

In addition to the CAM as a cost charging guide, DEC and DEP use OpenPages to track compliance with regulatory requirements. OpenPages is administered by Corporate Compliance, which serves both DEC and DEP. OpenPages allows a regulatory requirement to be broken down into actionable tasks and assigned to one or more individuals. Individuals must complete tasks assigned and report completion by a certain date. OpenPages is integral to DEC's and DEP's culture of compliance.

## **B. SUMMARY OF CORPORATE STRUCTURE**

- Duke Energy Corporation
  - Bison Insurance Company Limited
  - Cinergy Corp.
    - Cinergy Global Resources, Inc.
    - Cinergy Investments, Inc.
    - Cinergy Receivables Company, LLC
    - Cinergy Wholesale Energy, Inc.
    - Duke Energy Indiana, Inc.
    - Duke Energy Ohio, Inc.
    - Duke Energy Kentucky, Inc.
    - Duke Energy Transmission Holding Company, LLC
    - Duke Technologies, Inc.
  - Duke Energy Renewables NC Solar
  - Duke Energy Carolinas, LLC
  - Duke Energy Corporate Services, Inc.
  - Duke Energy Registration Services, Inc.
  - Progress Energy, Inc.
    - Duke Energy Progress, Inc.
    - Florida Progress Corporation
      - Duke Energy Florida, Inc.
    - Strategic Resource Solutions Corp.

*Duke Energy Corporation –  
Simplified and Partial Legal  
Entity Structure*

## **C. NORTH CAROLINA CODE OF CONDUCT**

*(as approved by the North Carolina Utilities Commission)*

This section contains the complete text of the "official" Code, approved by the North Carolina Utilities Commission, which governs DEC's and DEP's transactions with affiliates. This Code applies in North Carolina and South Carolina.

### **CODE OF CONDUCT GOVERNING THE RELATIONSHIPS, ACTIVITIES, AND TRANSACTIONS BETWEEN AND AMONG THE PUBLIC UTILITY OPERATIONS OF DEC, THE PUBLIC UTILITY OPERATIONS OF PEC, DUKE ENERGY CORPORATION, OTHER AFFILIATES, AND THE NONPUBLIC UTILITY OPERATIONS OF DEC AND PEC**

#### **I. DEFINITIONS**

For the purposes of this Code of Conduct, the terms listed below shall have the following definitions:

**Affiliate:** Duke Energy and any business entity of which ten percent (10%) or more is owned or controlled, directly or indirectly, by Duke Energy. For purposes of this Code of Conduct, Duke Energy and any business entity controlled by it are considered to be Affiliates of each other and DEC and PEC are considered to be Affiliates of each other.

**Commission:** The North Carolina Utilities Commission.

**Confidential Systems Operation Information:** Nonpublic information that pertains to Electric Services provided by DEC or PEC, including but not limited to information concerning electric generation, transmission, distribution, or sales.

**Customer:** Any retail electric customer of DEC or PEC in North Carolina.

**Customer Information:** Non-public information or data specific to a Customer or a group of Customers, including, but not limited to, electricity consumption, load profile, billing history, or credit history that is or has been obtained or compiled by DEC or PEC in connection with the supplying of Electric Services to that Customer or group of Customers.

**DEBS:** Duke Energy Business Services, LLC, and its successors, which is a service company Affiliate that provides Shared Services to DEC, PEC, Duke Energy, other Affiliates, or the Nonpublic Utility Operations of DEC or PEC, singly or in any combination.

**DEC:** Duke Energy Carolinas, LLC, the business entity, wholly owned by Duke Energy, that holds the franchise granted by the Commission to provide Electric Services within DEC's North Carolina service territory and that engages in public utility operations, as defined in G.S. 62-3(23), within the State of North Carolina.



**Duke Energy:** Duke Energy Corporation, which is the current holding company parent of DEC and PEC, and any successor company.

**Electric Services:** Commission-regulated electric power generation, transmission, distribution, delivery, and sales, and other related services, including, but not limited to, administration of Customer accounts and rate schedules, metering, billing, standby service, backups, and changeovers of service to other suppliers.

**Fuel and Purchased Power Supply Services:** All fuel for generating electric power and purchased power obtained by DEC or PEC from sources other than DEC or PEC for the purpose of providing Electric Services.

**Fully Distributed Cost:** All direct and indirect costs, including overheads and an appropriate cost of capital, incurred in providing goods or services to another business entity; provided, however, that (a) for each good and service supplied by DEC or PEC, the return on common equity utilized in determining the appropriate cost of capital shall equal the return on common equity authorized by the Commission in the supplying utility's most recent general rate case proceeding; (b) for each good and service supplied to DEC or PEC, the appropriate cost of capital shall not exceed the overall cost of capital authorized in the supplying utility's most recent general rate case proceeding; and (c) for each good and service supplied by DEC and PEC to each other, the return on common equity utilized in determining the appropriate cost of capital shall not exceed the lower of the returns on common equity authorized by the Commission in DEC's and PEC's most recent general rate case proceedings.

**JDA:** Joint Dispatch Agreement, which is the agreement as filed with the Commission on June 22, 2011, and as amended and refiled on June 12, 2012, in Docket Nos. E-7, Sub 986, and E-2, Sub 998.

**Market Value:** The price at which property, goods, and services would change hands in an arm's length transaction between a buyer and a seller without any compulsion to engage in a transaction, and both having reasonable knowledge of the relevant facts.

**Merger:** All transactions contemplated by the Agreement and Plan of Merger between Duke Energy and Progress Energy.

**Natural Gas Services:** Natural gas sales and natural gas transportation, and other related services, including, but not limited to, metering and billing.

**Nonpublic Utility Operations:** All business operations engaged in by DEC or PEC involving activities (including the sales of goods or services) that are not regulated by the Commission, or otherwise subject to public utility regulation at the state or federal level.

**Non-Utility Affiliate:** Any Affiliate, including DEBS and PESC, other than a Utility Affiliate, DEC, or PEC.

**PEC:** Progress Energy Carolinas, Inc., the business entity, wholly owned by Duke Energy, that holds the franchises granted by the Commission to provide Electric Services within the North Carolina service territory of PEC and that engages in public utility operations, as defined in G.S. 62-3(23), within the State of North Carolina.

**Personnel:** An employee or other representative of DEC, PEC, Duke Energy, another Affiliate, or a Nonpublic Utility Operation, who is involved in fulfilling the business purpose of that entity.

**PESC:** Progress Energy Services Company and its successors, which is a service company Affiliate that provides Shared Services to PEC, DEC, Duke Energy, other Affiliates, or the Nonpublic Utility Operations of DEC or PEC, individually or in combination.

**Progress Energy:** Progress Energy, Inc., which is the former holding company parent of PEC, and which became a subsidiary of Duke Energy after the close of the Merger, and any successors.

**Public Staff:** The Public Staff of the North Carolina Utilities Commission.

**Regulatory Conditions:** The conditions imposed by the Commission in connection with or related to the Merger.

**Shared Services:** The services that meet the requirements of the Regulatory Conditions approved in Docket Nos. E-7, Sub 986, and E-2, Sub 998, or subsequent orders of the Commission and that the Commission has explicitly authorized DEC or PEC to take from DEBS or PESC pursuant to a service agreement (a) filed with the Commission pursuant to G.S. 62-153(b), thus requiring acceptance and authorization by the Commission, and (b) subject to all other applicable provisions of North Carolina law, the rules and orders of the Commission, and the Regulatory Conditions.

**Utility Affiliates:** The regulated public utility operations of Duke Energy Indiana, Inc. (Duke Indiana), Duke Energy Kentucky, Inc. (Duke Kentucky), and Florida Power Corporation, d/b/a Progress Energy Florida (PEF); and the regulated transmission and distribution operations of Duke Energy Ohio, Inc. (Duke Ohio).

## **II. GENERAL**

This Code of Conduct establishes the minimum guidelines and rules that apply to the relationships, transactions, and activities involving the public utility operations of DEC, PEC, Duke Energy, other Affiliates, or the Nonpublic Utility Operations of DEC and PEC, to the extent such relationships, activities, and transactions affect the operations or costs of utility service experienced by the public utility operations of DEC and PEC in their respective service areas. DEC, PEC, and the other Affiliates are bound by this Code of Conduct pursuant to Regulatory Condition 6.1 approved by the Commission in Docket Nos. E-2, Sub 998, and E-7, Sub 986. This Code of Conduct is subject to modification by the Commission as the public interest may require, including, but not limited to, addressing changes in the organizational structure of DEC, PEC, Duke Energy, other Affiliates, or the Nonpublic Utility Operations; changes in the structure of the electric industry; or other changes that warrant modification of this Code.

DEC or PEC may seek a waiver of any aspect of this Code of Conduct by filing a request with the Commission showing that exigent circumstances in a particular case justify such a waiver.

## **III. STANDARDS OF CONDUCT**

### **A. Independence and Information Sharing**

1. Separation - DEC, PEC, Duke Energy, and the other Affiliates shall operate independently of each other and in physically separate locations to the maximum extent practicable. DEC, PEC, Duke Energy, and each of the other Affiliates shall maintain separate books and records. Each of DEC's and PEC's Nonpublic Utility Operations shall maintain separate records from those of

DEC's and PEC's public utility operations to ensure appropriate cost allocations and any arm's-length-transaction requirements.

2. Disclosure of Customer Information:

- (a) Upon request, and subject to the restrictions and conditions contained herein, DEC and PEC may provide Customer Information to Duke Energy, another Affiliate, or a Nonpublic Utility Operation under the same terms and conditions that such information is provided to non-Affiliates.
- (b) Except as provided in Section III.A.2.(f) below, Customer Information shall not be disclosed to any person or company, without the Customer's consent, and then only to the extent specified by the Customer. Consent to disclosure of Customer Information to Affiliates or Nonpublic Utility Operations may be obtained by means of written authorization, electronic authorization or recorded verbal authorization upon providing the Customer with the information set forth in Attachment A; provided, however, that DEC and PEC retain such authorization for verification purposes for as long as the authorization remains in effect.
- (c) If the Customer allows or directs DEC or PEC to provide Customer Information to Duke Energy, another Affiliate, or a Nonpublic Utility Operation, then DEC or PEC shall ask the Customer if he, she, it would like the Customer Information to be provided to one or more non-Affiliates. If the Customer directs DEC or PEC to provide Customer Information to one or more non-Affiliates, the Customer Information shall be disclosed to all entities designated by the Customer contemporaneously and in the same manner.
- (d) Sections III.A.2.(a), 2.(b), and 2.(c) herein shall be permanently posted on DEC's and PEC's website.
- (e) No DEC or PEC employee who is transferred to Duke Energy or another Affiliate will be permitted to copy or otherwise compile any Customer Information for use by such entity except pursuant to written permission from the Customer, as reflected by a signed Data Disclosure Authorization. Neither DEC nor PEC shall transfer any employee to Duke Energy or another Affiliate for the purpose of disclosing or providing Customer Information to such entity.
- (f) Notwithstanding the prohibitions established by this Section III.A.2, DEC and PEC may disclose Customer Information to DEBS, PESC, any other Affiliate, a Nonpublic Utility Operation or a non-affiliated third party without Customer consent, but only to the extent necessary for the Affiliate, Nonpublic Utility Operation or non-affiliated third party to provide goods or services to DEC or PEC and upon their explicit agreement to protect the confidentiality of such Customer Information. To the extent the Commission approves a list of services to be provided and taken pursuant to one or more utility-to-utility service agreements, then Customer Information may be disclosed pursuant to the foregoing exception to the extent necessary for such services to be performed.

- (g) DEC and PEC shall take appropriate steps to store Customer Information in such a manner as to limit access to only those persons permitted to receive it and shall require all persons with access to such information to protect its confidentiality.
- (h) DEC and PEC shall establish guidelines for its employees and representatives to follow with regard to complying with this Section III.A.2.
- (i) No DEBS or PESC employee may use Customer Information to market or sell any product or service to DEC's or PEC's Customers, except in support of a Commission-approved rate schedule or program or a marketing effort managed and supervised directly by DEC or PEC.
- (j) DEBS and PESC employees with access to Customer Information must be prohibited from making any improper indirect use of the data, including directing or encouraging any actions based on the Customer Information by employees of DEBS or PESC that do not have access to such information, or by other employees of Duke Energy or other Affiliates or Nonpublic Utility Operations of the Utilities.
- (k) Should any inappropriate disclosure of DEC or PEC Customer Information occur at any time, DEC or PEC is required to promptly file a statement with the Commission in this docket describing the circumstances of the disclosure, the Customer information disclosed, the results of the disclosure, and the mitigating and/or other steps taken to address the disclosure.

3. The disclosure of Confidential Systems Operation Information of DEC and PEC (referred to hereinafter as "Information") shall be governed as follows:

- (a) Such Information shall not be disclosed by DEC or PEC to an Affiliate or a Nonpublic Utility Operation unless it is disclosed to all competing non-Affiliates contemporaneously and in the same manner. Disclosure to non-Affiliates is not required when disclosure to Affiliates or Nonpublic Utility Operations meets one of the following exceptions:
  - (i) The Information is provided to employees of DEC or PEC for the purpose of implementing, and operating pursuant to, the JDA in accordance with the Regulatory Conditions approved in Docket Nos. E-7, Sub 986, and E-2, Sub 998;
  - (ii) The Information is necessary for the performance of services approved to be performed pursuant to one or more Affiliate utility-to-utility service agreements;
  - (iii) A state or federal regulatory agency or court having jurisdiction over the disclosure of the Information requires the disclosure;
  - (iv) The Information is provided to employees of DEBS or PESC pursuant to a service agreement filed with the Commission pursuant to G.S. 62-153;

- (v) The Information is provided to employees of DEC's or PEC's Utility Affiliates for the purpose of sharing best practices and otherwise improving the provision of regulated utility service;
  - (vi) The Information is provided to an Affiliate pursuant to an agreement filed with the Commission pursuant to G.S. 62-153, provided that the agreement specifically describes the types of Information to be disclosed;
  - (vii) Disclosure is otherwise essential to enable DEC or PEC to provide Electric Services to their Customers; or
  - (viii) Disclosure of the Information is necessary for compliance with the Sarbanes-Oxley Act of 2002.
- (b) Any Information disclosed pursuant to the exceptions in Section III.A.3(a), above, shall be disclosed only to employees that need the information for the purposes covered by those exceptions and in as limited a manner as possible. The employees receiving such Information must be prohibited from acting as conduits to pass the Information to any Affiliate(s) and must have explicitly agreed to protect the confidentiality of such Information.
- (c) For disclosures pursuant to exceptions (vii) and (viii) in Section III.A.3(a), above, DEC and PEC shall include in their annual affiliated transaction reports the following information:
- (i) The types of Information disclosed and the name(s) of the Affiliate(s) to which it is being, or has been, disclosed;
  - (ii) The reasons for the disclosure; and
  - (iii) Whether the disclosure is intended to be a one-time occurrence or an ongoing process.
- To the extent a disclosure subject to the reporting requirement is intended to be ongoing, only the initial disclosure and a description of any processes governing subsequent disclosures need to be reported.
- (d) DEC, PEC, DEBS, and PESC employees with access to CSOI must be prohibited from making any improper indirect use of the data, including directing or encouraging any actions based on the CSOI by employees that do not have access to such information, or by other employees of Duke Energy or other Affiliates or Nonpublic Utility Operations of DEC and PEC.
- (e) Should the handling or disclosure of DEC's or PEC's Market Information, Transmission Information, or other CSOI by DEBS, PESC, or another Affiliate or Nonpublic Utility Operation, or their respective employees, result in (i) a violation of the FERC Standards of Conduct or Affiliate Restrictions, 18 CFR § 358 - Standards of Conduct for Transmission Providers and 18 CFR § 35.39-Affiliate

Restrictions), or any other relevant FERC standards or codes of conduct, (ii) the posting of such data on an OASIS or other Internet website, or (iii) other public disclosure of the data, DEC or PEC shall promptly file a statement with the Commission in Docket Nos. E-7, Sub 986C, and E-2, Sub 998C, respectively, describing the circumstances leading to such violation, posting, or other public disclosure, any data required to be posted or otherwise publicly disclosed, and the mitigating and/or other steps taken to address the current or any future potential violation, posting, or other public disclosure.

- (f) Should any inappropriate disclosure of CSOI occur at any time, DEC or PEC shall promptly file a statement with the Commission in Docket Nos. E-7, Sub 986C, or E-2, Sub 998C, respectively, describing the circumstances of the disclosure, the CSOI disclosed, the results of the disclosure, and the mitigating and/or other steps taken to address the disclosure.
- (g) Unless publicly noticed and generally available, should the FERC Affiliate Restrictions, the Transmission Standards, or any other relevant FERC standards or codes of conduct be eliminated, amended, superseded, or otherwise replaced, DEC and PEC shall file a letter in Docket Nos. E-7, Sub 986E, and E-2, Sub 998E, with the Commission describing such action within 60 days of the action, along with a copy of any amended or replacement document.

#### **B. Nondiscrimination**

1. DEC's and PEC's employees and representatives shall not unduly discriminate against non-Affiliated entities.
2. In responding to requests for Electric Services, neither DEC nor PEC shall provide any preference to Duke Energy, another Affiliate, or a Nonpublic Utility Operation, nor to any customers of such an entity, as compared to non-Affiliates or their customers. Moreover, neither DEC, PEC, Duke Energy, nor any other Affiliates shall represent to any person or entity that Duke Energy, another Affiliate, or a Nonpublic Utility Operation will receive any such preference.
3. DEC and PEC shall apply the provisions of their respective tariffs equally to Duke Energy, the other Affiliates, the Nonpublic Utility Operations, and non-Affiliates.
4. DEC and PEC shall process all similar requests for Electric Services in the same timely manner, whether requested on behalf of Duke Energy, another Affiliate, a Nonpublic Utility Operation, or a non-Affiliated entity.
5. No personnel or representatives of DEC, PEC, Duke Energy, or another Affiliate shall indicate, represent, or otherwise give the appearance to another party that Duke Energy or another Affiliate speaks on behalf of DEC or PEC; provided however, that this prohibition shall not apply to employees of DEBS or PESC providing Shared Services or to employees of another Affiliate to the extent explicitly provided for in an affiliate agreement that has been accepted by the Commission. In addition, no personnel or representatives of a Nonpublic Utility Operation shall indicate, represent, or otherwise give the appearance to another party that they speak on behalf of DEC's or PEC's regulated public utility operations.

6. No personnel or representatives of DEC, PEC, Duke Energy, another Affiliate, or a Nonpublic Utility Operation shall indicate, represent, or otherwise give the appearance to another party that any advantage to that party with regard to Electric Services exists as the result of that party dealing with Duke Energy, another Affiliate, or a Nonpublic Utility Operation, as compared with a non-Affiliate.

7. Neither DEC nor PEC shall condition or otherwise tie the provision or terms of any Electric Services to the purchasing of any goods or services from, or the engagement in business of any kind with, Duke Energy, another Affiliate, or a Nonpublic Utility Operation.

8. When any employee or representative of DEC or PEC receives a request for information from or provides information to a Customer about goods or services available from Duke Energy, another Affiliate, or a Nonpublic Utility Operation, the employee or representative shall advise the Customer that such goods or services may also be available from non-Affiliated suppliers.

9. Disclosure of Customer Information to Duke Energy, another Affiliate, a Nonpublic Utility Operation, or a non-Affiliated entity shall be governed by Section III.A.2 of this Code of Conduct.

### **C. Marketing**

1. The public utility operations of DEC and PEC may engage in joint sales, joint sales calls, joint proposals, or joint advertising (a joint marketing arrangement) with their Utility Affiliates and with their Nonpublic Utility Operations, subject to compliance with other provisions of this Code of Conduct and any conditions or restrictions that the Commission may hereafter establish. Neither DEC nor PEC shall otherwise engage in such joint activities without making such opportunities available to comparable third parties.

2. Neither Duke Energy nor any of the other Affiliates shall use the names or logos of DEC or PEC in any communications unless a disclaimer is included that states the following:

- (a) "[Duke Energy Corporation/Affiliate) is not the same company as [DEC/PEC], and [Duke Energy Corporation/Affiliate) has separate management and separate employees";
- (b) "[Duke Energy Corporation/Affiliate] is not regulated by the North Carolina Utilities Commission or in any way sanctioned by the Commission";
- (c) "Purchasers of products or services from [Duke Energy Corporation/Affiliate] will receive no preference or special treatment from [DEC/PEC]"; and
- (d) "A customer does not have to buy products or services from [Duke Energy Corporation/Affiliate] in order to continue to receive the same safe and reliable electric service from [DEC/PEC]."

3. Nonpublic Utility Operations may not use the names or logos of DEC or PEC in any communications unless a disclaimer is included that states the following:



- (a) "[Nonpublic Utility Operation] is not part of the regulated services offered by [DEC/PEC] and is not in any way sanctioned by the North Carolina Utilities Commission";
- (b) "Purchasers of products or services from [Nonpublic Utility Operation] will receive no preference or special treatment from [DEC/PEC]"; and
- (c) "A customer does not have to buy products or services from [Nonpublic Utility Operation] in order to continue to receive the same safe and reliable electric service from [DEC/PEC]."

The required disclaimer must be sized and displayed in a way that is commensurate with the name and logo so that the disclaimer is at least the larger of one-half the size of the type that first displays the name and logo or the predominant type used in the communication.

#### **D. Transfers of Goods and Services, Transfer Pricing, and Cost Allocation**

1. Cross-subsidies involving DEC or PEC and Duke Energy, other Affiliates, or the Nonpublic Utility Operations are prohibited.
2. All costs incurred by personnel or representatives of DEC or PEC for or on behalf of Duke Energy, other Affiliates, or the Nonpublic Utility Operations shall be charged to the entity responsible for the costs.
3. As a general guideline, with regard to the transfer prices charged for goods and services, including the use or transfer of personnel, exchanged between and among DEC or PEC, and Duke Energy, the other Non-Utility Affiliates, and the Nonpublic Utility Operations, to the extent such prices affect DEC's or PEC's operations or costs of utility service, the following conditions shall apply:
  - (a) Except as otherwise provided for in this Section III.D, for untariffed goods and services provided by DEC or PEC to Duke Energy, a Non-Utility Affiliate, or a Nonpublic Utility Operation, the transfer price paid to DEC or PEC shall be set at the higher of Market Value or DEC's or PEC's Fully Distributed Cost.
  - (b) Except as otherwise provided for in this Section III.D, for goods and services provided, directly or indirectly, by Duke Energy, a Non-Utility Affiliate other than DEBS or PESC, or a Nonpublic Utility Operation to DEC or PEC, the transfer price(s) charged by Duke Energy, the Non-Utility Affiliate, and the Nonpublic Utility Operation to DEC or PEC shall be set at the lower of Market Value or Duke Energy's, the Non-Utility Affiliate's, or the Nonpublic Utility Operation's Fully Distributed Cost(s). If DEC or PEC do not engage in competitive solicitation and instead obtain the goods or services from Duke Energy, a Non-Utility Affiliate, or a Nonpublic Utility Operation, DEC and PEC shall implement adequate processes to comply with this Code provision and related Regulatory Conditions and ensure that in each case DEC's and PEC's Customers receive service at the lowest reasonable cost. For goods and services provided by DEBS and PESC to DEC, PEC, and Utility Affiliates, the transfer price charged shall be set at DEBS' and PESC's Fully Distributed Cost.



- (c) Tariffed goods and services provided by DEC and PEC to Duke Energy, other Affiliates, or a Nonpublic Utility Operation shall be provided at the same prices and terms that are made available to Customers having similar characteristics with regard to Electric Services (such as time of use, manner of use, customer class, load factor, and relevant Standard Industrial Classification) under the applicable tariff.
- (d) Subject to and in compliance with all conditions placed upon DEC and PEC by the Commission, untariffed non-power, non-generation, or non-fuel goods and services provided by DEC or PEC to DEC, PEC, or the Utility Affiliates or by the Utility Affiliates to DEC or PEC, shall be transferred at the supplier's Fully Distributed Cost.

4. To the extent that DEC, PEC, Duke Energy, other Affiliates, or the Nonpublic Utility Operations receive Shared Services from DEBS or PESC (or their successors), these Shared Services may be jointly provided to DEC, PEC, Duke Energy, other Affiliates, or the Nonpublic Utility Operations on a fully distributed cost basis, provided that the taking of such Shared Services by DEC and PEC is cost beneficial on a service-by-service (e.g., accounting management, human resources management, legal services, tax administration, public affairs) basis to DEC and PEC. Charges for such Shared Services shall be allocated in accordance with the cost allocation manual(s) filed with the Commission pursuant to Regulatory Condition 5.5, subject to any revisions or other adjustments that may be found appropriate by the Commission on an ongoing basis.

5. DEC, PEC, and their Utility Affiliates may capture economies-of-scale in joint purchases of goods and services (excluding the purchase of natural gas, coal, and electricity or ancillary services intended for resale), if such joint purchases result in cost savings to DEC's and PEC's Customers. DEC, PEC, Duke Indiana, Duke Kentucky, and PEF, may capture economies-of-scale in joint purchases of coal and natural gas, if such joint purchases result in cost savings to DEC's and PEC's Customers. Notwithstanding the foregoing, if any of the coal or natural gas jointly purchased by DEC, PEC, Duke Indiana, Duke Kentucky, or PEF is transferred to or utilized by another Affiliate within 12 months of the joint purchase, DEC and PEC will file a notification of such with the Commission. All joint purchases entered into pursuant to this section shall be priced in a manner that permits clear identification of each participant's portion of the purchases and shall be reported in DEC's and PEC's affiliated transaction reports filed with the Commission.

6. All permitted transactions between DEC, PEC, Duke Energy, other Affiliates, and the Nonpublic Utility Operations shall be recorded and accounted for in accordance with the cost allocation manuals required to be filed with the Commission pursuant to Regulatory Condition 5.5 and with Affiliate agreements accepted by the Commission or otherwise processed in accordance with North Carolina law, the rules and orders of the Commission, and the Regulatory Conditions.

7. Costs that DEC and PEC incur in assembling, compiling, preparing, or furnishing requested Customer Information or Confidential Systems Operation Information for or to Duke Energy, other Affiliates, Nonpublic Utility Operations, or non-Affiliates shall be recovered from the requesting party pursuant to Section III.D.3 of this Code of Conduct.

8. Any technology or trade secrets developed, obtained, or held by DEC or PEC in the conduct of regulated operations shall not be transferred to Duke Energy, another Affiliate, or a Nonpublic Utility Operation without just compensation and the filing of 60-days prior notification to the Commission; provided however, that DEC and PEC are not required to provide advance notice for

such transfers to each other. DEC and PEC may request a waiver of this requirement from the Commission with respect to such transfers to Duke Energy, a Utility Affiliate, a Non-Utility Affiliate, or a Nonpublic Utility Operation. In no case, however, shall the notice period requested be less than 20 business days.

9. DEC and PEC shall receive compensation from Duke Energy, other Affiliates, and the Nonpublic Utility Operations for intangible benefits, if appropriate.

#### **E. Regulatory Oversight**

1. The State's existing requirements regarding affiliate transactions, as set forth in G.S. 62-153, shall continue to apply to all transactions between DEC, PEC, Duke Energy, and the other Affiliates.

2. The books and records of DEC, PEC, Duke Energy, other Affiliates, and the Nonpublic Utility Operations shall be open for examination by the Commission, its staff, and the Public Staff as provided in G.S. 62-34, 62-37, and 62-51.

3. To the extent North Carolina law, the orders and rules of the Commission, and the Regulatory Conditions permit Duke Energy, an Affiliate, or a Nonpublic Utility Operation to supply DEC or PEC with Natural Gas Services or other Fuel and Purchased Power Supply Services used by DEC or PEC to provide Electric Services to Customers, and to the extent such Natural Gas Services or other Fuel and Purchased Power Supply Services are supplied, DEC or PEC shall demonstrate in its annual fuel adjustment clause proceeding that each such acquisition was prudent and the price was reasonable.

#### **F. Utility Billing Format**

To the extent any bill issued by DEC and PEC, Duke Energy, another Affiliate, a Nonpublic Utility Operation, or a non-Affiliated third party includes any charges to Customers for Electric Services and non-Electric Services from Duke Energy, another Affiliate, a Nonpublic Utility Operation, or a non-Affiliated third party, the charges for the Electric Services shall be separated from the charges for any other services included on the bill. Each such bill shall contain language stating that the Customer's Electric Services will not be terminated for failure to pay for any other services billed.

#### **G. Complaint Procedure**

1. DEC and PEC shall establish complaint procedures to resolve potential complaints that arise due to the relationship of DEC and PEC with Duke Energy, its other Affiliates, and its Nonpublic Utility Operations. The complaint procedures shall provide for the following:

- (a) Verbal and written complaints shall be referred to a designated representative of DEC or PEC.
- (b) The designated representative shall provide written notification to the complainant within 15 days that the complaint has been received.

- (c) DEC or PEC shall investigate the complaint and communicate the results or status of the investigation to the complainant within 60 days of receiving the complaint.
- (d) DEC and PEC shall each maintain a log of complaints and related records and permit inspection of documents (other than those protected by the attorney/client privilege) by the Commission, its staff, or the Public Staff.

2. Notwithstanding the provisions of Section III.G.1, any complaints received through Duke Energy's Ethics Line (or successor), which is a confidential mechanism available to the employees of the Duke Energy holding company system, shall be handled in accordance with procedures established for Ethics Line.

3. These complaint procedures do not affect a complainant's right to file a formal complaint or otherwise address questions to the Commission.

## **CODE OF CONDUCT ATTACHMENT A**

### **DEC/PEC CUSTOMER INFORMATION DISCLOSURE AUTHORIZATION**

#### **For Disclosure to Affiliates:**

DEC's/PEC's Affiliates offer products and services that are separate from the regulated services provided by DEC/PEC. These services are not regulated by the North Carolina Utilities Commission or the Public Service Commission of South Carolina. These products and services may be available from other competitive sources.

The Customer authorizes DEC/PEC to provide any data associated with the Customer account(s) residing in any DEC/PEC files, systems or databases [**or specify specific types of data**] to the following Affiliate(s) \_\_\_\_\_. DEC/PEC will provide this data on a non-discriminatory basis to any other person or entity upon the Customer's authorization.

#### **For Disclosure to Nonpublic Utility Operations:**

DEC/PEC offers optional, market-based products and services that are separate from the regulated services provided by DEC/PEC. These services are not regulated by the North Carolina Utilities Commission or the Public Service Commission of South Carolina. These products and services may be available from other competitive sources.

The Customer authorizes DEC/PEC to use any data associated with the Customer account(s) residing in any DEC/PEC files, systems or databases [**or specify types of data**] for the purpose of offering and providing energy-related products or services to the Customer. DEC/PEC will provide this data on a non-discriminatory basis to any other person or entity upon the Customer's authorization.

## **D. SERVICE AGREEMENT LISTS**

DEC and DEP currently have the following Service Agreement lists:

- Service Company Utility Service Agreement List
- Operating Companies Service Agreement List
- Operating Companies/Non-Utility Companies Service Agreement List
- Nuclear Services Agreement List

For a complete list of the services, please refer to NCUC Docket No. E-7, Sub 986A or Docket No. E-2, Sub 998A. These agreements can also be found on the Rates and Regulatory portal.

## **E. GUIDELINES FOR TRANSACTIONS BETWEEN DEC/DEP AND AFFILIATES**

The *Guidelines for Transactions between DEC/DEP and Affiliates* ("Guidelines") is an internal document developed to help employees implement the North Carolina Code of Conduct. The Guidelines may be revised from time to time as necessary to meet changing business requirements.

These Guidelines are intended to apply to all employees in dealings between DEC/DEP and its affiliates to assist in compliance with the North Carolina Code of Conduct and North Carolina and South Carolina state laws, and federal laws concerning affiliate transactions. Application of the affiliate rules to specific transactions can depend on the specific facts at issue. Any questions concerning the affiliate rules or these Guidelines should be directed to the subject matter experts listed later in this section.

### **A. DEFINITIONS**

See the Code of Conduct in Section C in this CAM for definitions. Below are some additional definitions used throughout the CAM.

**Duke Energy Carolinas (DEC):** Duke Energy Carolinas, LLC, the business entity, which is an electric utility subject to the jurisdiction of the North Carolina Utilities Commission, the Public Service Commission of South Carolina and the Federal Energy Regulatory Commission.

**Duke Energy Progress (DEP) (formally known as Progress Energy Carolinas (PEC)):** Duke Energy Progress, the business entity, which is an electric utility subject to the jurisdiction of the North Carolina Utilities Commission, the Public Service Commission of South Carolina and the Federal Energy Regulatory Commission.

**FERC:** Federal Energy Regulatory Commission

**NCUC:** North Carolina Utilities Commission

**ORS:** Office of Regulatory Staff in South Carolina

**PSCSC:** Public Service Commission of South Carolina

**Public Items:** Items DEC and DEP, in their discretion, make available at no charge to any third party, including an Affiliate, upon request.

**Service Company:** Duke Energy Business Services, LLC (DEBS) and Progress Energy Service Company (PESC), which are affiliates that provides shared services to DEC, DEP and their affiliates.

**Technology And Trade Secrets:** For the purposes of these Guidelines "Trade Secrets" is defined as information, including a formula, pattern, compilation, device, method, technique, or process, that: (1) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. Technology is scientific, engineering or technical information which is patented or is a trade secret.

## **B. INFORMATION SHARING RESTRICTIONS**

### **1. Customer Information**

- **Customer Information may be disclosed to an Affiliate, Nonpublic Utility Operations (NUO) or any third party only with the Customer's prior consent.**
  - Consent to disclosure of Customer Information ("CI") to Affiliates or NUOs may be by written authorization, electronic authorization or recorded verbal authorization upon providing the Customer with the information set out in Attachment A to the Code of Conduct.
  - Departments providing CI to Affiliates or NUO must retain verification of the authorization for the longer of three years or as long as the authorization remains in effect.
- **Exception:** DEC/DEP may disclose CI to Affiliates, NUO or third parties as necessary for the Affiliate, NUO or third party to provide goods or services to DEC or DEP.
  - Affiliates and/or NUOs receiving CI under this exception must agree to protect the confidentiality of CI they receive. Employee training or information technology non-disclosure statements may be used to meet this requirement.
  - Agreements with third parties should provide for the protection of CI.
- CI may be used by DEBS/PESC employees to market or sell products or services to customers of DEC/DEP **only** in support of:
  - NCUC or PSCSC approved rate schedules or programs; or
  - Marketing efforts managed and supervised directly by DEC/DEP.
- DEBS/PESC employees with access to CI may not act as an improper conduit of this information. For example, employees must not provide indirect access to the data, or recommend action based on the CI, to any DEBS/PESC or other Affiliate or NUO employees who have not been granted proper access to the information.

- ***Any improper disclosure of CI requires promptly filing a statement with the NCUC describing the circumstances of the disclosure, the results of the disclosure, and the mitigating and/or other steps taken to address the disclosure, and the Legal Department must be informed of the disclosure to facilitate this notification.***

## **2. Confidential Systems Operation Information**

- Confidential Systems Operation Information (“CSOI”) may not be disclosed to an Affiliate or NUO unless it is disclosed to all competing non-Affiliates at the same time and in the same manner.
- ***Exceptions:***
  - The CSOI is provided to employees of DEC or DEP for the purpose of implementing, and operating pursuant to, the Joint Dispatch Agreement in accordance with the Regulatory Conditions approved in Docket Nos. E-7, Sub 986 and E-2, Sub 998;
  - The CSOI is necessary for the performance of services approved to be performed pursuant to one or more Affiliate utility-to-utility service agreements.
  - The disclosure is required by law or a state or federal regulatory agency or court.
  - The CSOI is provided to employees of DEBS or PESC pursuant to a service agreement filed with the Commission pursuant to G.S. 62-153.
  - CSOI may be provided to Utility Affiliates for the purpose of sharing best practices and improving the provision of regulated utility service.
  - The CSOI is provided to an Affiliate pursuant to an agreement filed with the Commission pursuant to G.S. 62-153, provided that the agreement specifically describes the types of information to be disclosed.
  - Sharing of CSOI is permitted if it is otherwise essential to enable DEC/DEP to provide Electric Services to its Customers, or for compliance with the Sarbanes-Oxley Act of 2002.
  - However, certain reporting requirements are triggered by use of this exception. ***Consult with the Legal Department prior to sharing Operation Information under this exception.***
  - Employees receiving CSOI under these exceptions must protect the confidentiality of information they receive and may not improperly share this information with other Affiliate or NUO employees who are not permitted to have access to this information. Employee training or information technology non-disclosure statements may be used to communicate these requirements.
  - DEC, DEP, DEBS and PESC’s employees with access to CSOI may not act as an improper conduit of this information. For example, employees must not provide indirect access to the data, or recommend action based on the CSOI, to any DEBS/PESC or other Affiliate or NUO employees who have not been granted proper access to the information.



- ***Any improper disclosure of CSOI requires promptly filing a statement with the NCUC in Docket Nos. E-7, Sub 986C, or E-2, Sub 998C, respectively, describing the circumstances of the disclosure, the CSOI disclosed, the results of the disclosure, and the mitigating and/or other steps taken to address the disclosure, and the Legal Department must be informed of the disclosure to facilitate this notification.***

### **3. Market and Transmission Information**

- The FERC Affiliate Restrictions and the Standards of Conduct prohibit the disclosure of DEC/DEP's market information and non-public transmission information to market-regulated power sales affiliate (otherwise known as a non-regulated affiliate). FERC defines market information as: "non-public information related to the electric energy and power business including, but not limited to, information regarding sales, cost of production, generator outages, generator heat rates, unconsummated transactions, or historical generator volumes. Market information includes information from either affiliates or non-affiliates." The FERC Standards of Conduct prohibit the disclosure of DEC/DEP's non-public transmission system information to marketing function employees. Information regarding the Standards of Conduct and inappropriate disclosures is explained in Duke Energy's FERC Standards of Conduct Compliance Procedures found at [www.ferc.duke-energy.com](http://www.ferc.duke-energy.com).
- Any handling or disclosure of DEC/DEP's market information or non-public transmission information by DEBS/PESC or its employees which results in (a) a violation of the FERC Affiliate Restrictions or Standards of Conduct, (b) the posting of such data on an OASIS or other Internet website, or (c) other public disclosure of the data, requires that DEC/DEP promptly file a statement with the NCUC. ***The Legal Department must be informed of any such occurrence to facilitate this notification.***

## **C. AFFILIATE AGREEMENTS**

### **1. Filing Requirements**

- Before DEC/DEP may make payment to an Affiliate for services not already approved, it must obtain prior NCUC approval.
- DEC/DEP must file all other affiliate agreements with the NCUC for notice. This notice must be at least 60 days in advance of the transfer of DEC/DEP's technology or trade secrets, provided, however, that DEC and DEP are not required to provide advance notice for such transfers to each other.
- Before filing an affiliate agreement with the NCUC, DEC/DEP must submit it to the Public Staff-NCUC at least 10 days in advance for informal review.
- DEC/DEP must make available to the ORS copies of affiliate agreements involving payment by DEC/DEP to an Affiliate.
- **Service Level Agreements ("SLA")** may be considered affiliate agreements that trigger these filing and approval requirements. ***Contact the Legal Department before entering into an SLA between DEC/DEP and any Affiliate.***

- DEC/DEP must obtain PSCSC approval prior to the transfer of any utility asset valued at greater than \$1 million to any party; and must provide 30 days advance notice to the NCUC prior to the transfer of any utility asset with a gross book value in excess of \$10 million to any party.
- Under both North and South Carolina law, DEC/DEP bears the burden of showing that affiliate transactions are reasonable and prudent.

➤ **Existing Agreements**

- Copies of filed and approved affiliate agreements are available for review on the Portal under Rates and Regulatory department.
- On December 1, 2011, DEC and DEP jointly filed in Docket Nos. E-7, Sub 986A and E-2, Sub 998A the following affiliate Service Agreements to which they were parties:
  - Service Company Utility Service Agreement
  - Operating Companies Services Agreement
  - Operating Companies/NonUtility Companies Service Agreement
  - Nuclear Services Agreement
- Brief descriptions of these agreements follow:
  - Service Company Utility Service Agreement – It is expected that Franchised Electric & Gas employees whose job responsibilities involve providing services to different operating companies will be employed by DEBS or PESC and will provide services to DEC and DEP, as well as the other Utility Affiliates under this agreement.
  - Operating Companies Services Agreement – Under this agreement, DEC and DEP and their Utility Affiliates may provide certain services to each other. With the exception of services provided by DEC to DEP and vice versa, the Utility Affiliates will request services from each other using Service Request for Affiliates form.
  - Operating Companies/NonUtility Companies Agreement – Under this agreement, DEC and DEP and their non-utility Affiliates may provide certain services to each other under a Service Request for Affiliates form.
  - Nuclear Services Agreement – Under this agreement, DEC, DEP, DEBS, PESC, and Florida Power Corporation, d/b/a/ Progress Energy Florida, Inc., may provide certain various services to each other to support management and operation of the nuclear plants.
  - Pursuant to North Carolina Regulatory Condition No. 5.4, DEC and DEP filed lists with the NCUC of the services they intend to obtain under each of these Service Agreements. Before obtaining any services that are not on the appropriate list, DEC or DEP must give the NCUC **15 days advance notice**.

With the exception of the Nuclear Services Agreement, which was first filed with the NCUC on December 1, 2011, these agreements supersede in their entirety DEC's affiliate service agreements previously filed in Docket Nos. E-7, Sub 795A and E-7, Sub 810.

- ***Contact the Legal Department before obtaining or providing goods or services from or to an Affiliate that are not covered by Affiliate Agreements.***

## **D. COST ALLOCATION & TRANSFER PRICING RULES**

### **1. Cost Allocations**

- **Corporate Governance and Shared Services**
  - DEC/DEP and its affiliates may use joint corporate oversight, governance, corporate support and utility support systems and personnel. These services are provided by DEBS and PESC under the Service Company Utility Service Agreement (see Affiliate Agreements above).
  - Costs must be allocated or charged back on a fully distributed cost basis and are subject to review by state regulators. Charging methods are described in the Service Agreement.
  - DEC/DEP must perform periodic evaluations that show shared services are cost-beneficial to it on a service by service basis.
- **Joint Purchases**
  - **Generally:** DEC/DEP and its affiliates may capture economies of scale in joint purchases of goods and services (*excluding*: electricity or ancillary services intended for resale, or coal or natural gas – see special provision below) or the joint development of an asset if (a) the purchase results in cost savings to DEC/DEP's Customers, and (b) the costs are allocated appropriately and audit trail maintained.
  - **Coal and Natural Gas:** DEC, DEP, Duke Energy Florida, Duke Energy Indiana and Duke Energy Kentucky may capture economies-of-scale in joint purchases of coal and natural gas for consumption, if these purchases result in cost savings to DEC/DEP's Customers. However, if any of the jointly purchased coal or natural gas is transferred to or used by another Affiliate within 12 months of the joint purchase, DEC or DEP must file a notice with the NCUC.
- *The Legal Department must be informed of any such transfer to facilitate this notification.*

### **2. Transfer Pricing Rules**

- **Types of Transactions**
  - **Affiliate or NUO Providing Goods or Services to DEC/DEP**
    - Refer to "Filing Requirements" above.
    - DEC/DEP must perform a "make or buy" analysis.
    - For goods and services provided to DEC/DEP by Duke Energy Corporation, a Non-Utility Affiliate, or an NUO, the transfer prices should be the lower of the supplier's fully distributed cost or market value.
    - For goods and services provided to DEC/DEP by each other or another Utility Affiliate, the transfer price may be at supplier's fully distributed cost.
    - Transfer pricing rules apply to Affiliates acting as subcontractors to other Affiliates providing goods or services to DEC/DEP.

**Exceptions:**

- Corporate governance, corporate services and utility support services (discussed above) may be provided at fully distributed cost.
- **DEC/DEP Providing Services to Affiliates/NUO**
  - Refer to "Filing Requirements" above.
  - Tariffed services provided by DEC or DEP to Duke Energy, other Affiliates, or an NUO shall be provided at the same prices and terms that are made available to Customers having similar characteristics with regard to Electric Services.
  - Untariffed services provided by DEC/DEP to Duke Energy, a Non-Utility Affiliate, or an NUO should be transferred at the higher of market value or DEC's or DEP's fully distributed cost.
  - Untariffed services provided by DEC/DEP to each other or another Utility Affiliate should be transferred priced at the supplier's fully distributed cost.
  - **Loaned Employees**
    - DEC/DEP may assign an employee to an Affiliate or NUO if the assignment does not interfere with or impair DEC/DEP's utility responsibilities or business operations.
    - Responsibility for all liabilities to third parties and any legal or other related expenses that arise in connection with the work of the employee lies with the Affiliate.
- **DEC/DEP Providing Goods/Assets to Affiliates/NUO and the transfer or Use of Utility Assets/Goods not subject to Intercompany Asset Transfer Agreement**
  - Tariffed goods provided by DEC or DEP to Duke Energy, other Affiliates, or an NUO shall be provided at the same prices and terms that are made available to Customers having similar characteristics with regard to Electric Services.
  - Untariffed goods provided by DEC or DEP to Duke Energy, a Non-Utility Affiliate, or an NUO should be transferred at the higher of market value or DEC's or DEP's fully distributed cost.
  - Determining the appropriate price requires consideration of fully distributed cost, market price evaluation and an appropriate allocation methodology (see below).
  - Affiliates/NUOs may use DEC/DEP's goods or assets without charge in connection with the performance of work for DEC/DEP if they would permit a third party supplier to have the same access to such goods or assets without charge.
  - DEC/DEP may share Public Items with its Affiliates/NUOs without charge.
  - No materiality threshold on transfers to / from non-Utility or non-Regulated Utility affiliates.
  - *In each instance, the Legal Department must be contacted prior to any such transfer to facilitate an asset transfer agreement.*

- **Transfer of Technology or Trade Secrets**
  - *Transfer, including sublicense, of technology or trade secrets by DEC or DEP to an Affiliate requires 60 days prior notice to the NCUC.* Software developed by or on behalf of DEC or DEP typically constitutes technology or trade secrets, which may also include proprietary manuals, technical processes, etc. The following procedure should be followed in the event of a request to transfer and provide use of technology or trade secrets to an Affiliate:
    - Notice: The Code of Conduct requires 60-days notice to the NCUC in advance of the transfer of technology or trade secrets, unless the transfer is between DEC and DEP. If circumstances warrant, DEC or DEP may request a waiver of the advance notice requirement, but the notice period CANNOT be less than 20 business days. The department (or its department financial contact) transferring or allowing use of the DEC or DEP technology or trade secret to an Affiliate must notify the Legal Dept or Rates - Carolinas before the beginning of the advance notice period. Details of the transaction, including description and appropriate compensation support, sufficient to make the filing with the NCUC must be provided in time to meet the notice requirement. If the transferring department requires assistance with determining the pricing methods or other transfer requirements, additional time to consult with Legal or Rates – Carolinas should be allowed for in advance of the notice period
    - Transfer pricing: Generally, DEC and DEP are compensated for such technology and trade secret transfers at the higher of market or fully-distributed cost, subject to the conditions and/or exceptions discussed in this section. Market and cost comparison procedures to be followed (as well as applicable exceptions) are further discussed in the “Pricing Rules Compliance Documentation – Transfer or Sharing of Goods/Products” section below. The transferring department, along with the department financial contact if necessary, must ensure that the appropriate accounting entries are recorded to compensate DEC and DEP according to the transfer pricing requirements.
    - Supporting documentation describing the technology or trade secret transferred, as well as the pricing support documentation must be maintained by the transferring department.
- **Sharing CI or CSOI**
  - Sharing DEC/DEP’s CI or CSOI is strictly limited, as described in Sections B.1 & 2 above. In the event CI or CSOI is provided to an affiliate (or third party), the NC Code of Conduct requires that all costs incurred in assembling, compiling, preparing, or furnishing the information be recovered from the requesting party.
    - “All costs” means fully-distributed cost and includes any overhead or allocable cost associated with the labor cost incurred to provide the information as well as any incremental systems, materials/supplies, or other costs identified with the transaction.
    - Although the CI or CSOI is specific to DEC/DEP, the employees providing the CI or CSOI, or providing a service *using* DEC/DEP CI or CSOI, may be utility or Service Company employees. Charging fully distributed cost must have the effect of removing the applicable labor and other dollars from either DEC/DEP direct

charges, or from a pool of Service Company dollars, which are otherwise direct-charged, distributed, or allocated to DEC/DEP. The following process should be followed to bill or charge costs associated with providing CI or CSOI:

- The department or group providing the CI or CSOI must develop a method to appropriately price out the transaction or activity (if the activity is recurring). For example, a per-transaction price may be developed by observing the average time involved in completing a service using CI, applying a proportionate labor rate plus associated overheads, then multiplying by a number of transactions (tracked or estimated) for the accounting period, to compute a charge to the Affiliate or third party. Less complex methods may be appropriate to charge for one-time or infrequent transactions.
  - The department or group providing the CI or CSOI will provide sufficient detail to its department financial contact to enable the contact to make the appropriate journal entry to record the charge (or to bill the third party if applicable). The department financial contact must ensure that the appropriate accounting entries are recorded.
  - Supporting documentation describing the transaction, as well as the pricing determination support, must be maintained by the department providing the CI or CSOI or the applicable department.
- **Wholesale Power Sales or Purchases**
    - Require FERC approval.
    - May require Advance Notice to NCUC and approval by State Commissions, depending on the circumstances.
  - **Pricing Rules Compliance and Documentation**
    - **Performance of Services**

Every DEC/DEP department that performs services for Affiliates should conduct, or cause to be prepared, a periodic market analysis to compare the department's current fully distributed cost to the equivalent market prices. Similarly, when it obtains services from an Affiliate (other than Corporate Governance and Shared Services or under the Utility-to-Utility exception), each DEC/DEP department should perform, or ensure that the Affiliate performs a market comparison for such services and document its rationale for selecting the Affiliate.
    - **Transfer or Sharing of Goods/Products**

DEC/DEP should conduct periodic market to current cost comparisons for utility assets such as facilities, vehicles, equipment and information technology property, which are shared with or used by Affiliates. The market versus cost evaluation is applicable to any such assets provided on an ongoing basis or as the result of an individual transaction. Similarly, when DEC or DEP uses assets owned by an Affiliate, they should perform or ensure that the Affiliate performs a market comparison for such assets.

For the transfer or sharing of items developed, created or constructed by DEC/DEP or an Affiliate (regardless of whether the item is a capital asset), DEC/DEP departments should

perform a market comparison to determine the appropriate price, taking into consideration the following as applicable:

- The fully distributed cost to DEC/DEP or the affiliate to develop the item;
- The appropriate allocation of such costs for items that will be shared, such as software;
- The market price to purchase the item “off the shelf”, if available; and
- The market price to hire a professional to develop the item.

- **Exceptions**

- ***No Comparable Market Exception.*** If no comparable market exists, the goods or services should be priced at fully distributed costs. A DEC/DEP department relying on this exception should document how it determined that no comparable market exists.
- ***Joint Purchase/Development Exception.*** The Code permits the use of shared corporate governance and shared support and permits joint purchases among DEC/DEP and affiliates. Therefore, Duke Energy may establish a project to jointly develop an item to be used by multiple business units, including DEC/DEP, provided that the costs are allocated appropriately and accounting records are maintained to reflect the cost sharing. Similarly, DEC/DEP and its affiliates may jointly procure goods or services from third-party suppliers.
- ***Use of Assets in the Performance of Services.*** Affiliates may use DEC/DEP goods or assets without charge in connection with the performance of work for DEC/DEP if DEC/DEP would permit a third party supplier to have the same access to such goods or assets without charge.

## **E. REGULATORY OVERSIGHT**

- DEC and DEP are required to file a detailed Carolinas CAM and Annual Affiliate Transactions Report with the NCUC. The CAM and Report are subject to regular audit by the NCUC Public Staff.
- DEC and DEP are also required to maintain information on affiliate transactions for review by the PSCSC and ORS upon request.
- Corporate Audit Services performs an annual audit of Affiliate transactions.
- Independent audit of transactions under the Services Agreements occurs no less than every 2 years.

## **F. COMPLAINT PROCEDURE**

The Code of Conduct requires DEC/DEP to follow established procedures to resolve any complaints which may arise due to the relationship of DEC/DEP with Duke Energy Corporation, its other Affiliates, or its Nonpublic Utility Operations. Complaints could originate from any source, including customers, potential suppliers, alliance partners, competitors, etc., or could be



referred to the Company by the NCUC, PSCSC, Public Staff, or ORS. The following steps comprise the procedure to follow in the event of a complaint:

- Any verbal or written complaints will be referred to Duke Energy *Rate Support, Strategy and Research* department contact below (written complaints forwarded by the NCUC, PSCSC, Public Staff or ORS are automatically received by the *Rate Support, Strategy and Research* Department).
- The *Rate Support, Strategy and Research* department will provide written notice to the complainant within 15 days indicating that the complaint was received.
- The *Rate Support, Strategy and Research* department will conduct or coordinate the investigation of the complaint, provide the results of such investigation to the Legal Department for review and input, and report back the status or results of the review to the complainant within 60 days of receiving the complaint.
- A log of complaints received and the related documents will be maintained by the *Rate Support, Strategy and Research* department for audit purposes.

***Note: Any complaints received via the Ethics Line will be handled separately according to the procedures established for Ethics Line.***

#### **SUBJECT MATTER EXPERTS & RESOURCES**

<u>Name</u>	<u>Area</u>	<u>Phone</u>
Brian L. Franklin	Legal – State Rules	980.373.4465
Kendrick Fentress	Legal – State Rules	919.546.6733
Paul Kinny	Legal – FERC Rules	980.373.6609
Chris Whicker	FERC Corporate Compliance	704.382.2869
Mark Hollis	Corporate Compliance	704.382.7511
Lesley Quick	Rates & Regulatory Strategy	704.382.8468

***Note: Department financial contacts referred to in the guidelines above are in the Financial Planning and Analysis organization.***



## **F. SHARED SERVICES COST DISTRIBUTION PROCESS**

Services designated as “shared support” for purposes of the North Carolina Regulatory Conditions and Code of Conduct, are Services that are corporate or general utility in nature and are used by multiple business units. These services are provided pursuant to a Utility Service Agreement filed with the NCUC.

The list of services conforms to the service category descriptions included in Attachment 2 of the Service Company Utility Service Agreement, and represents the shared services offered that DEC and DEP intend to obtain under this agreement. DEC and DEP are required by the North Carolinas Utilities Commission to update the list of services as necessary. Interim changes to this list require filing with the Commission, with 15 days advance notice of the proposed changes.

The shared services cost distribution process is the method by which costs of the Services Company are fully distributed.

**The objectives of the cost distribution process are to:**

- Meet regulatory requirements.
- Ensure that each affiliate shares in and is appropriately charged for the relevant shared services costs.
- Assist affiliates in understanding the cost drivers and basis for allocation of shared services costs that affect their operating results.
- Provide an accounting model whereby affiliates can see how much is allocated to them for each shared service.

Costs for shared services are distributed to affiliates within Duke Energy through (i) direct charges, (ii) distribution or (iii) allocation. Costs are direct charged to the extent possible. Costs that cannot be direct charged can be distributed to the applicable business units using specific percentages if known. Costs that cannot be direct charged or distributed are allocated to the business units receiving the benefit using reasonable allocation methods as described in the “Shared Services Cost Distribution Details” section of this manual. Services are charged to Affiliates on a fully distributed cost basis and include labor and non-labor costs. As part of a fully distributed cost, an overhead component is charged to Affiliates as a percentage of Service

Company labor costs, whether direct charged, distributed or allocated. This overhead represents the cost of shared services provided by shared services employees.

The Corporate Accounting group is responsible for developing the following allocation factors, which serve as the basis for the allocation of costs that have not been direct charged or distributed. Final allocation factors distributing costs to each affiliate sum to 100% for each cost pool, thus clearing out 100% of costs to be allocated each month. Interim adjustments to allocation factors are made only for material transactions, such as an acquisition or divestiture of an affiliate, and for major company reorganizations.

Corporate Accounting reviews Service Company allocation factors annually. Typically during the budget process, rates are recalculated and implemented for actuals at the beginning of the following year. These rates are reflected in the Service Company allocation rate schedule included in the Cost Allocation Manual.

The Service Company also charges for certain services under the Service Company Utility Service Agreement. Types of pass through costs typically handled by the Service Company may include:

1. Finance & Accounting Services
2. Insurance Premium Expense
3. Advertising Expense
4. Community Relations Projects
5. Donations
6. Employee Benefits Expense
7. Dues / Subscriptions
8. Merger Execution Costs
9. Research & Development
10. Miscellaneous Lease / Rent Expense

## **G. Guidelines and Procedure for Charging DEC/DEP for Costs Originating with Service Company**

On a regular basis, Service Company employees provide support to DEC and DEP. All Service Company resources used to support DEC or DEP must properly charge DEC/DEP through (i) direct charges, (ii) distribution or (iii) allocation. Charging fully distributed cost to DEC or DEP is normally accomplished with the application of a percentage loaded on direct labor. Service Company management is accountable for employees appropriately charging their costs. An Affiliate Rules and Transactions Computer Based Training (CBT) (emphasis on DEC/DEP) is available in the Training Connection on the Portal.

The following procedure addresses employees' and management's responsibilities.

### **A. General Guidelines**

1. Hours worked by Service Company employees in direct support of DEC or DEP are charged directly to DEC or DEP.
2. First-line supervisors should review and approve, when appropriate, source documentation resulting in a charge by Service Company to DEC/DEP (timesheets, employee expenses, etc.).
3. First-line supervisors are responsible for reviewing reports that show monthly charges to their responsibility center. These reports would include any charges incurred by the responsibility center to DEC/DEP.
4. Service Company to DEC/DEP transactions are covered under the Service Company Utility Agreement.

### **B. Time Reporting**

When a Service Company employee provides direct support to DEC or DEP:

1. Hours worked by Service Company employees in direct support of DEC/DEP are charged directly to DEC/DEP.

2. Management approvals are required for non-exempt employee timesheets, as well as exempt employee timesheets for vacation carryover or paid supplemental compensation.
3. The financial system will automatically load time reported to DEC/DEP with labor loads of fringe benefits, payroll taxes, incentive pay and unproductive time, as applicable.

### **C. Labor Allocations**

Service Company employees provide services to DEC/DEP at fully distributed cost. Allocation of costs described in items 1 through 5 below are applied as a cost factor to labor charged to DEC/DEP.

Below are the various cost components of labor loads. The rates for these items may be adjusted during the year to properly accrue the associated actual or anticipated cost.

#### **1. Fringe Benefit Allocation**

Fringe benefits are employee benefits such as retirement, and medical and dental insurance. These costs are generally accrued as they are earned. Actual fringe benefit costs are charged to the appropriate administrative and general FERC account. These costs are then allocated via a loading factor that is based on labor. This allows the proper distribution of fringe benefits between operating and capital projects as well as among Affiliates.

#### **2. Payroll Tax Allocation**

Payroll taxes include state unemployment, federal unemployment, social security and Medicare. Payroll taxes are accrued as they are incurred. Actual payroll taxes are charged to the appropriate payroll tax account. These costs are then allocated via a loading factor that is based on labor. This allows the proper distribution of payroll tax between operating and capital projects as well as among Affiliates.

#### **3. Incentive Allocation**

Incentives are accrued via a loading factor applied to labor charges by a Service Company employee.

#### **4. Unproductive Cost Allocation**

An unproductive cost allocation is applied to productive labor charges by the Service Company employee. Service Company allocates unproductive costs pro rata to productive labor, either via a monthly ratio or standard rates.

#### **5. Service Company Overhead**

A Service Company overhead rate is based on historical enterprise and governance overhead charged to Regulated Utilities in the following functions: Information Systems, Transportation, Human Resources, Materials Management, Accounting, Public Affairs, Legal, Finance, Facilities, Internal Auditing, Environmental, Health and Safety, Investor Relations, Planning, and Executive.

## H. SHARED SERVICES COST DISTRIBUTION DETAILS

See the following charts for descriptions of services provided and associated allocation methods and factors.

SERVICE COMPANY COST ALLOCATION DETAILS COST ALLOCATION'S IN SERVICE AGREEMENTS													
				Total DEC	DEK Total	DEK Total	DEI Total	mm Pwr Tot	Inf'l Total	Total DEP	Total DEF	Other Total	Total
Line	Function	Operating Unit (OU)	Alloc Pool Description	St. CD									
1.	Information Systems	ENMF	Mainframe Svcs Ent	505	67.77	16.78	3.50	11.95	-	-	-	-	100.00
		PRMF	Mainframe Svcs Ent PE	505	-	-	-	-	-	-	-	-	100.00
		DEMF	Mainframe Svcs Ent	505	35.95	8.90	1.86	6.35	-	-	64.29	35.66	100.00
										30.19	16.73	0.02	100.00
		PUMF	Mainframe Svcs Utility PE	505	-	-	-	-	-	-	64.29	35.66	100.00
												0.05	100.00
		ENWS	Worksta Svcs Enterprise	506	85.38	2.02	0.60	5.04	5.95	0.17	-	-	100.00
		PRWS	Worksta Svcs Enterprise PE	506	-	-	-	-	-	-	-	-	100.00
		DWSE	Worksta Svcs Enterprise DUK	506	46.11	1.10	0.32	2.72	3.22	0.09	67.04	31.91	100.00
											14.66	0.94	100.00
		PWWS	Worksta Svcs Utility PE	506	-	-	-	-	-	-	67.04	31.91	100.00
												1.05	100.00
		ENSS	Server Svcs Enterprise	507	43.52	15.59	4.81	16.30	16.21	-	-	-	100.00
		PRSS	Server Svcs Enterprise PE	507	-	-	-	-	-	-	48.62	49.32	100.00
		DESS	Server Svcs Enterprise DUK	507	27.04	9.69	2.99	11.38	10.08	-	18.40	18.66	100.00
		UTSS	Server Svcs Utility	507	51.94	18.60	5.74	21.85	-	-	-	-	100.00
												1.87	100.00
		PUSS	Server Svcs Utility PE	507	-	-	-	-	-	-	48.62	49.32	100.00
												2.06	100.00
		ENTS	Telecom Svcs Enterprise	508	74.44	3.85	1.60	12.18	6.68	0.19	-	-	100.00
		PRTS	Telecom Svcs Enterprise PE	508	-	-	-	-	-	-	60.08	38.83	100.00
		DETS	Telecom Svcs Enterprise DUK	508	40.71	2.10	0.87	6.66	3.66	0.11	27.22	17.60	100.00
		DUTS	Telecom Svcs Utility ND	508	42.32	2.18	0.92	6.91	-	-	28.28	18.28	100.00
		UTTS	Telecom Svcs Utility	508	79.94	4.13	1.73	13.07	-	-	-	-	100.00
												1.13	100.00
		PTSU	Telecom Svcs Utility PE	508	-	-	-	-	-	-	60.08	38.83	100.00
												1.09	100.00
		ENHD	Helpdesk Services	509	74.44	3.85	1.60	12.18	6.68	0.19	-	-	100.00
		DEHD	Helpdesk Services DUK	509	40.71	2.10	0.87	6.66	3.66	0.11	27.22	17.60	100.00
		PRHD	Helpdesk Services	509	-	-	-	-	-	-	60.08	38.83	100.00
												1.09	100.00
		ENMA	ITS Mgt & Apps Svcs Ent	510	61.38	7.82	2.51	17.36	10.24	0.14	-	-	100.00
		DEMA	ITS Mgt & Apps Svcs Ent DE	510	36.67	4.80	1.52	10.60	6.33	0.07	21.97	17.47	100.00
		PRMA	ITS Mgt & Apps Svcs Ent PE	510	-	-	-	-	-	-	55.32	44.09	100.00
		UTMA	ITS Mgt & Apps Utility	510	68.42	8.75	2.80	19.47	-	-	-	-	100.00
		DUMA	ITS Mgt & Apps Svcs Util DE	510	36.71	4.80	1.52	10.61	6.33	-	22.00	17.50	100.00
2.	Meters	DEMS	Meter Svcs Utility DE	511	31.52	14.40	3.02	10.26	-	-	-	-	100.00
		UMMS	Meter Svcs Util MWonly Elec/Gas	511	-	52.03	10.90	37.07	-	-	19.09	21.71	100.00
		UEMS	Meter Svcs Util MW Elec	511	-	42.69	8.45	48.86	-	-	-	-	100.00
3.	Transportation	DUVE	Transp Vehicles Utility DE	512	42.63	2.26	0.93	7.11	-	-	28.54	18.53	100.00
		UMVE	Transp Vehicles Util MW only	512	-	21.99	9.07	68.94	-	-	-	-	100.00
												-	100.00
		DGAV	Transp Aviation Gvnce	513	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	100.00
		DEAV	Transp Aviation Svcs Ent DE	513	36.83	4.85	1.53	10.67	6.33	0.07	22.10	17.58	100.00

4	Electric System Maintenance			-	-	-	-	-	-	-	-	-	-
	UTTR	ESS Elec Tran Utility	515	40.76	7.43	0.33	16.40	-	-	19.19	15.89	-	100.00
	UMTR	ESS Elec Tran Utility - MW	596	-	30.75	1.35	67.90	-	-	-	-	-	100.00
	UTDI	ESS Elec Dist Utility	516	39.31	6.45	1.12	11.49	-	-	25.35	16.28	-	100.00
	UMDI	ESS Elec Dist Utility MW only	557	-	31.85	5.85	60.30	-	-	-	-	-	100.00
5	Marketing and Customer Relations			-	-	-	-	-	-	-	-	-	-
	PUSD	M&CR SALES & Demand Util PE	517	-	-	-	-	-	-	46.78	53.22	-	100.00
	NET	Customer Strategy P&S	525	60.01	17.07	3.38	19.54	-	-	-	-	-	100.00
	STD	Standard Services	517	53.23	24.33	5.10	17.34	-	-	-	-	-	100.00
	UMSD	M&CR Standard Prod Util MWonly	518	-	52.03	10.90	37.07	-	-	-	-	-	100.00
	UMNT	M&CR Net Product Util MW only	518	-	52.03	10.90	37.07	-	-	-	-	-	100.00
	UESD	M&CR Std&Dmnd Util MWElec only	519	-	42.69	8.45	48.86	-	-	-	-	-	100.00
	UGSD	M&CR Sales&Demand Util MWGas only	517	-	81.38	18.62	-	-	-	-	-	-	100.00
	DTNT	M&CR Elec Only Util DE	515	33.77	9.61	1.90	11.00	-	-	20.45	23.27	-	100.00
	UTNT	M&CR Electric Utility	515	60.01	17.07	3.38	19.54	-	-	-	-	-	100.00
	UTMR	M&CR Mtr Rdg&Pmt Proc Util	517	53.23	24.33	5.10	17.34	-	-	-	-	-	100.00
	UMMR	M&CR Customers Util ND	517	31.52	14.40	3.02	10.26	-	-	19.09	21.71	-	100.00
	UMMR	M&CR MtrRdg&PmtProc Util MWonly	518	-	52.03	10.90	37.07	-	-	-	-	-	100.00
	UDMR	M&CR MtrRdg&PmtProc DEO DEK only	519	-	82.67	17.33	-	-	-	-	-	-	100.00
	UEMR	M&CR MtrRdg&PmtProc Util MWElec	518	-	42.69	8.45	48.86	-	-	-	-	-	100.00
	UMPD	M&CR Util MW PD	519	-	52.03	10.90	37.07	-	-	-	-	-	100.00
	UWPD	M&CR PD DEO/DEK E/G	519	-	82.67	17.33	-	-	-	-	-	-	100.00
	USGA	M&CR Smart Grid	517	53.23	24.33	5.10	17.34	-	-	-	-	-	100.00
	USGE	M&CR Smart Grid - Electric	517	60.01	17.07	3.38	19.54	-	-	-	-	-	100.00
	DSGA	M&CR Smart Grid DUKE E/G	519	31.52	14.40	3.02	10.26	-	-	19.09	21.71	-	100.00
	DSGE	M&CR Smart Grid DUKE Elec Only	511	33.77	9.61	1.90	11.00	-	-	20.45	23.27	-	100.00
	UTSG	M&CR Customer System Util	514	53.23	24.33	5.10	17.34	-	-	-	-	-	100.00
	PSGA	M&CR Smart Grid PEC E/G	511	-	-	-	-	-	-	46.78	53.22	-	100.00
	USGA	M&CR Smart Grid	517	53.23	24.33	5.10	17.34	-	-	-	-	-	100.00
	USGE	M&CR Smart Grid - Electric	517	60.01	17.07	3.38	19.54	-	-	-	-	-	100.00
	DSGA	M&CR Smart Grid DUKE E/G	519	31.52	14.40	3.02	10.26	-	-	19.09	21.71	-	100.00
	DSGE	M&CR Smart Grid DUKE Elec Only	511	33.77	9.61	1.90	11.00	-	-	20.45	23.27	-	100.00
	UTSG	M&CR Customer System Util	514	53.23	24.33	5.10	17.34	-	-	-	-	-	100.00
	PSGA	M&CR Smart Grid PEC E/G - Capital	511	-	-	-	-	-	-	46.78	53.22	-	100.00

Duke Energy Carolinas and Duke Energy Progress  
Docket No. E-7, Sub 986A and Docket No. E-2, Sub 998A  
Cost Allocation Manual

6	Electric Transmission & Distribution Engineering & Construction				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		UTET UEET	Eng & Constr ET Utility Eng & Constr ET Util MW only	548 547	28.10 -	4.94 26.37	0.61 3.26	13.19 70.37	-	-	21.37	31.79	-	-	-	-	100.00 100.00		
	Electric Transmission & Distribution Engineering & Construction	UTED UEED	Eng & Constr ED Utility Eng & Constr ED Util MW only	549 541	35.18 -	9.74 45.32	1.84 8.59	9.90 46.09	-	-	20.28	23.14	-	-	-	-	100.00 100.00		
					-	-	-	-	-	-	-	-	-	-	-	-	-	-	
7	Power Engineering & Construction	UTEC UEEC	Eng & Constr Pwr Prod Util Eng&Constr Pwr Prod Util MWonly	545 543	27.15 -	-	1.13 2.61	32.53 75.40	-	-	14.77	24.42	-	-	-	-	100.00 100.00		
		UGEG	Eng & Constr Gas Util MW only	544	-	89.49	10.51	-	-	-	-	-	-	-	-	-	100.00		
					-	-	-	-	-	-	-	-	-	-	-	-	-	-	
					-	-	-	-	-	-	-	-	-	-	-	-	-	-	
8	Human Resources	DGHR DHRE UTHR	HR Svcs Gmnce HR Services Enterprise DE HR Services Utility	542 540 539	38.63 41.01 42.63	2.05 2.18 2.26	0.85 0.90 0.93	6.44 6.84 7.11	3.44 3.66 -	5.92 0.11 -	25.87 27.47 28.54	16.80 17.83 18.53	-	-	-	-	100.00 100.00 100.00		
					-	-	-	-	-	-	-	-	-	-	-	-	-	-	
9	Materials Management				-	-	-	-	-	-	-	-	-	-	-	-	-	-	
		DUSC	Mats Mgmt Sply Chn Util DE	535	41.79	6.44	1.96	9.21	4.85	-	22.63	13.12	-	-	-	-	100.00		
		DESC	Mats Mgmt Sply Chain Ent DE	534	38.25	5.80	1.79	8.43	11.04	0.05	22.10	12.92	0.12	-	-	-	100.00		
		UPPD	MW ELEC/GAS DELIVRY STOREROOM	533	-	95.61	4.39	-	-	-	-	-	-	-	-	-	100.00		
		UTIN	Mats Mgmt Inventory Util	530	24.18	18.50	0.09	13.35	-	-	20.79	23.09	-	-	-	-	100.00		
10	Facilities	GORE	RE Facility Svcs CLT GO	527	56.75	-	-	-	3.12	-	38.01	2.12	-	-	-	-	100.00		
		ONRE	RE Fac Svcs - Cincinnati	529	12.07	8.04	-	1.74	77.61	-	-	0.54	-	-	-	-	100.00		
		PLRE	RE Fac Svcs - Plainfield	528	3.13	-	0.43	91.80	2.10	0.43	2.11	-	-	-	-	-	100.00		
		MWRE	RE Facility Services MW Utility	521	-	30.58	8.30	61.12	-	-	-	-	-	-	-	-	100.00		
		DERE	RE Facility Services Ent DE	519	45.93	0.18	0.03	5.84	3.81	0.03	30.76	13.42	-	-	-	-	100.00		
11	Accounting	DGAC	Accounting Gmnce	514	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	-	-	-	100.00		
		DGVP	VSP - Governance DE	513	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	-	-	-	100.00		
		PGVP	VSP - Governance PG	512	-	-	-	-	-	-	55.65	44.35	-	-	-	-	100.00		
		DEAC	Accounting Svcs Ent DE	505	36.83	4.85	1.53	10.67	6.33	0.07	22.10	17.58	0.04	-	-	-	100.00		
		UTAC	Acctg Svcs Utility	509	39.39	5.19	1.64	11.46	-	-	23.57	18.75	-	-	-	-	100.00		
		UPAC	Acctg Svcs MW Comm Pwr only	504	-	-	-	-	100.00	-	-	-	-	-	-	-	100.00		
		UMAC	Acctg Svcs Util MW FE&G only	515	-	27.51	9.19	63.30	-	-	-	-	-	-	-	-	100.00		
		DDGP	SwCo Depreciation Enterprise DE	508	36.83	4.85	1.53	10.67	6.33	0.07	22.10	17.58	0.04	-	-	-	100.00		
		PBDP	SwCo Depreciation Enterprise PG	518	-	-	-	-	-	-	55.65	44.35	-	-	-	-	100.00		
		DGDC	Governance CTA Depreciation DE	511	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	-	-	-	100.00		
		DCTG	CTA Governance DE	510	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	-	-	-	100.00		
		PUDC	Governance CTA Depreciation PE	513	-	-	-	-	-	-	55.65	44.35	-	-	-	-	100.00		
		DPNL	Duke Progress CTA Nuclear	507	61.90	-	-	-	-	-	30.60	7.50	-	-	-	-	100.00		
					-	-	-	-	-	-	-	-	-	-	-	-	-	-	



Power Planning and Operations				-	-	-	-	-	-	-	-	-	-
				-	-	-	-	-	-	-	-	-	-
				-	-	-	-	-	-	-	-	-	-
				-	-	-	-	-	-	-	-	-	-
	DUGE	Pwr Ping&Ops Gen Ping Util ND	071	36.57	-	1.78	12.80	3.09	-	25.94	19.82	-	100.00
	DUTP	Pwr Ping&Ops Trans Ping Util ND	017	37.14	7.01	1.36	12.00	-	-	22.54	19.95	-	100.00
	DUDP	Pwr Ping&Ops Dist Ping Util ND	041	38.23	6.73	1.24	11.75	-	-	23.94	18.11	-	100.00
				-	-	-	-	-	-	-	-	-	-
Power Planning and Operations				-	-	-	-	-	-	-	-	-	-
				-	-	-	-	-	-	-	-	-	-
				-	-	-	-	-	-	-	-	-	-
	UTGD	Pwr Ping&Ops Gen Depch Util	042	26.25	-	2.45	19.44	-	-	24.95	26.91	-	100.00
	UTTO	Pwr Ping&Ops Trans Ops Util	031	38.96	7.21	0.84	14.20	-	-	20.87	17.92	-	100.00
				-	-	-	-	-	-	-	-	-	-
	UTDO	Pwr Ping & Ops Dist Ops Util	043	38.23	6.73	1.24	11.75	-	-	23.94	18.11	-	100.00
				-	-	-	-	-	-	-	-	-	-
	REPO	Pwr Ping & Ops Pwr Ops Reg	078	28.49	-	2.99	20.24	-	-	23.46	25.22	-	100.00
	NRPO	Pwr Ping&Ops Pwr Ops Non Reg	069	-	-	-	-	100.00	-	-	-	-	100.00
				-	-	-	-	-	-	-	-	-	-
				-	-	-	-	-	-	-	-	-	-
Public Affairs	DGPA	Pub Affrs Gvrnce	001	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
	DGPP	Public Policy Gvrnce	002	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
	DEPA	Public Affairs Services Ent DE	004	36.83	4.85	1.53	10.67	6.33	0.07	22.10	17.58	0.04	100.00
	UTPA	Public Affairs Services Utility	003	37.07	8.34	1.97	8.69	-	-	23.81	20.12	-	100.00
				-	-	-	-	-	-	-	-	-	-
Legal	DLEE	Legal Governance	001	58.71	7.37	2.37	16.44	9.68	5.34	-	-	0.09	100.00
	EMLE	Legal Governance	002	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
	RLGL	Legal Governance PE	003	-	-	-	-	-	-	55.65	44.36	-	100.00
	UTLE	Legal Services Utility	004	39.39	5.19	1.64	11.46	-	-	23.57	18.75	-	100.00
				-	-	-	-	-	-	-	-	-	-
Rates	UTRA	Rates Utility	044	31.73	15.83	2.99	12.65	-	-	21.76	15.04	-	100.00
	UORA	Rates Svcs Util DEO DEK only	045	-	84.12	15.88	-	-	-	-	-	-	100.00
	UMRA	Rates DEO B. DEK Reg	046	-	84.12	15.88	-	-	-	-	-	-	100.00
				-	-	-	-	-	-	-	-	-	-
Finance	DGFI	Financial Svcs Gvrnce	001	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
	DEFI	Financial Svcs Enterprise DE	002	36.83	4.85	1.53	10.67	6.33	0.07	22.10	17.58	0.04	100.00
	UTFI	Financial Services Utility	003	39.39	5.19	1.64	11.46	-	-	23.57	18.75	-	100.00
	UMFI	Financial Svc Util MW FEG only	004	-	27.51	9.19	63.30	-	-	-	-	-	100.00
	UPFI	Financial Svc MW Comm Pwr only	005	-	-	-	-	100.00	-	-	-	-	100.00
				-	-	-	-	-	-	-	-	-	-
Rights of Way				-	-	-	-	-	-	-	-	-	-
				-	-	-	-	-	-	-	-	-	-
	DURD	Right of Way ED Sys Util ND	047	39.31	6.45	1.12	11.49	-	-	25.35	16.28	-	100.00
				-	-	-	-	-	-	-	-	-	-
	DURG	Right of Way Gen Sys Util ND	048	36.57	-	1.78	12.80	3.09	-	25.94	19.82	-	100.00
				-	-	-	-	-	-	-	-	-	-
	DURW	Right of Way ET Sys Util ND	049	40.76	7.43	0.33	16.40	-	-	19.19	15.89	-	100.00
				-	-	-	-	-	-	-	-	-	-
Internal Auditing	DGIA	Internal Audit Gvrnce	040	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
	DUIA	Intnl Audit Svcs Utility DE	040	39.39	5.19	1.64	11.46	-	-	23.57	18.75	-	100.00
Environmental, Health and Safety	DGEA	Envir Affrs Gvrnce	001	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
	EHNA	Enviro Affairs Svcs Ent	006	36.83	4.85	1.53	10.67	6.33	0.07	22.10	17.58	0.04	100.00
				-	-	-	-	-	-	-	-	-	-
	UTEA	Enviro Affairs Svcs Utility	007	31.73	15.83	2.99	12.65	-	-	21.76	15.04	-	100.00

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20.	Pools	UTFU	Fuels Utility	548	26.25	-	2.45	19.44	-	-	24.95	26.91	-	100.00
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
21.	Investor Relations	DGIR	Investor Rel Gvrnce	001	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
22.	Planning	DGPS	Planning Svcs Gvrnce	001	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
		DGCD	Corp Dvlpmt Gvrnce	001	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
		DEPS	Planning Svcs Enterprise DE	003	36.83	4.85	1.53	10.67	6.33	0.07	22.10	17.58	0.04	100.00
		CLPS	Planning Svcs Utility DE	008	39.39	5.19	1.64	11.46	-	-	23.57	18.75	-	100.00
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
23.	Executive	DGBX	Exec Governance	001	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
		ENBX	Exec Services Enterprise	003	36.83	4.85	1.53	10.67	6.33	0.07	22.10	17.58	0.04	100.00
		UTBX	Exec Services Utility	002	39.39	5.19	1.64	11.46	-	-	23.57	18.75	-	100.00
		UMBX	Executive Svc Util MW FEG only	003	-	27.51	9.19	63.30	-	-	-	-	-	100.00
		UPBX	Executive Svc MW Comm Pwr only	004	-	-	-	-	100.00	-	-	-	-	100.00
		UOBX	Exec Svcs Utility DEB DEK only	006	-	43.83	14.70	-	41.47	-	-	-	-	100.00
		DGSC	Stock Comp Legacy DE	001	58.71	7.37	2.37	16.44	9.68	5.34	-	-	0.09	100.00
		PSTK	Stock Comp Legacy PGN	001	-	-	-	-	-	-	55.65	44.35	-	100.00
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
24.	Facilities Rate of Return Allocation	DURR	Facilities ROR Gvrnce	001	35.63	4.64	1.47	10.25	6.09	3.45	21.41	17.01	0.05	100.00
					-	-	-	-	-	-	-	-	-	-
					-	-	-	-	-	-	-	-	-	-
25.	Interest	DEAI	Acctg Interest Svc Enterprise DE	002	43.05	11.01	2.99	16.52	6.43	1.31	10.88	7.53	0.28	100.00
					-	-	-	-	-	-	-	-	-	-

## **I. GUIDELINES AND PROCEDURE FOR CHARGING AFFILIATES FOR COSTS ORIGINATING WITH DEC OR DEP**

On occasion, DEC/DEP's employees may be requested to provide support, subject to availability, to Affiliates and NUO. DEC/DEP's management is responsible for ensuring that use of all company resources to support Affiliate work is properly charged to the Affiliate/NUO. Rules regarding affiliate agreements between DEC/DEP and any Affiliate/NUO are described in E. *Guidelines for Transactions Between DEC/DEP and Affiliates* incorporated in this CAM. DEC/DEP will charge the Affiliate/NUO fully distributed cost or the higher of cost or market value as appropriate. Charging the Affiliate/NUO either market or fully distributed cost is normally accomplished with the application of a percentage loaded on direct labor charges. Other charges may be made separately to account for vehicle charges, employee expenses, materials and supplies, contract services, etc. DEC/DEP's management is accountable for the review and approval of all charges from the utility in support of Affiliate/NUO work. An Affiliate Rules and Transactions CBT (emphasis on DEC/DEP) is available in the Training and Education page on the Portal.

In October 2013, DEC and DEP filed with the NCUC an *Advance Notice Pursuant to Regulatory Condition 5.6 re Revisions to Cost Allocation Manual*. The Companies proposed to revise the CAM to eliminate the utility-to-utility affiliate loader for labor charges between DEC and DEP and to eliminate any distinction between the two Companies for purposes of calculating Service Company allocations, with the new changes to take effect on January 1, 2014. Going forward, the costs covered by the utility affiliate loader would be handled by utility departmental allocations and a change to the Service Company allocation basis. These steps will eliminate the need for a utility affiliate loader between the two Companies, because the costs of the utility affiliate loader can be addressed in a simplified fashion between the two Companies. The utility affiliate loader will still apply for all labor charged outside of the Companies to their affiliates.

The following procedure addresses employees' and management's responsibilities.

#### **A. General Guidelines**

1. Hours worked by DEC/DEP employees in direct support of an Affiliate/NUO are charged directly to the Affiliate.
2. First-line supervisors should review and approve, when appropriate, source documentation resulting in a charge by DEC/DEP to an Affiliate/NUO (timesheets, employee expenses, etc.).
3. First-line supervisors are responsible for reviewing reports that show monthly charges to their responsibility center. These reports would include any charges incurred by the responsibility-center to an Affiliate/NUO.
4. Transactions originating with DEC/DEP and charged to an Affiliate typically require the completion of a Service Request form. The process and eForm can be found on the Portal under Rates & Regulatory.

#### **B. Time Reporting**

When a DEC/DEP employee supports an Affiliate/NUO:

- 1) Hours worked by DEC/DEP employees in direct support of an Affiliate/NUO are charged directly to the Affiliate/NUO.
- 2) Overtime hours worked by a non-exempt employee during a week should be applied first to the Affiliate/NUO project, up to total hours worked on the project.
  - a) If overtime pay is charged to the utility but not the Affiliate/NUO in a time reporting period, the reason for the exception shall be fully documented and maintained by the supervisor for a minimum of two years.
  - b) For example, a non-exempt employee works 50 hours for a given week, 10 of which must be paid as overtime. Twenty of the 50 hours were in support of an Affiliate project. That project should be charged 10 hours overtime and 10 hours straight-time.
- 3) When a semi-monthly exempt employee provides support to an Affiliate/NUO, and overtime is worked, the employee's regular semi-monthly pay is prorated to the utility and the Affiliate/NUO based on the number of hours worked for each.

- 4) Management approvals are required for non-exempt employee timesheets, as well as exempt employee timesheets for vacation carryover or paid supplemental compensation.
- 5) The financial system will automatically load time reported to an Affiliate/NUO with labor loads including fringe benefits, payroll taxes, incentive pay, and unproductive time, as applicable. If market value is to be charged, journal entries will be made by the business finance support group to appropriately adjust the costs to market. The overhead cost factor includes the following components: department administrative overheads, corporate governance, employee training, Service Company-related shared services, facilities, and supervisory costs.

### **C. Labor Allocations**

DEC/DEP employees may provide services to their regulated Utility Affiliates at DEC's or DEP's fully distributed costs and DEC/DEP employees may provide services to Duke Energy Corporation, a Non-Utility Affiliate, a non-regulated Utility Affiliate or NUO at the higher of fully distributed cost or market value, subject to certain exceptions. The mechanism for charging is generally a cost applied to labor charges and a market value journal entry if applicable. Allocation rates described in items 1 through 10 below are applied as a cost factor to direct labor charged to an Affiliate/NUO.

Below are the various cost components of labor loads. The rates for Items 1-4 may be adjusted during the year to properly accrue the associated actual or anticipated cost. Items 5-10 are components of Duke Energy's Regulated Utilities FE&G labor cost multiplier and are updated annually. Items 5-10 do not apply to transactions between DEC and DEP.

#### **1. Fringe Benefit Allocation**

Fringe benefits are employee benefits such as retirement, and medical and dental insurance. These costs are generally accrued as they are earned. Actual fringe benefit costs are charged to the appropriate administrative and general FERC account. These costs are then allocated via a loading factor that is based on labor. This allows the proper distribution of fringe benefits between operating and capital projects as well as among business units.

## **2. Payroll Tax Allocation**

Payroll taxes include state unemployment, federal unemployment, social security and Medicare. Payroll taxes are accrued as they are incurred. Actual payroll taxes are charged to the appropriate payroll tax account. These costs are then allocated via a loading factor that is based on labor. This allows the proper distribution of payroll tax between operating and capital projects as well as among business units.

## **3. Incentive Allocation**

Incentives are accrued via a loading factor applied to direct labor charges by the DEC/DEP employee performing work for an Affiliate/NUO.

## **4. Unproductive Cost Allocation**

An unproductive cost allocation is applied on the basis of direct labor charges by the DEC/DEP employee performing work for an Affiliate/NUO. DEC/DEP allocates unproductive costs pro rata to direct labor, either via a monthly ratio or standard rates.

It is Duke Energy's intent to calculate Items 5-10 below on a total Regulated Utilities FE&G basis with the calculations to be performed annually. Annualized costs (either historic or projected), which best align with the current organization will be used in the calculations.

## **5. Administrative Overheads**

An Administrative Overhead Rate will be applied on the basis of direct labor charges.

Administrative Overheads include:

Departmental administrative functions (Business Support and General Office Executive Management) labor and non-labor costs, e.g., training, employee expenses, Information Management costs for administrative functions by major functional department.

## **6. Corporate Governance**

A corporate governance cost rate is applied on the basis of direct labor charges. The corporate governance rate is based on corporate governance costs allocated to FE&G.

## **7. Employee Training Costs**

An employee training cost rate is applied on the basis of direct labor charges. The employee training-related costs factor will be developed by identifying the direct labor charges for those within Regulated Utilities that perform employee training-related tasks. Such training provides employees with the knowledge and skills necessary to perform their job duties, for professional development, and to maintain professional or technical licenses or for certifications required for business operations.

The employee training cost rate is based on the total direct labor charges of the groups within Regulated Utilities that perform employee training-related tasks.

## **8. Service Company Costs**

A service company cost rate is based on historical enterprise and governance overhead charged to Regulated Utilities in the following functions: Information Systems, Transportation, Human Resources, Materials Management, Accounting, Public Affairs, Legal, Finance, Facilities, Internal Auditing, Environmental, Health and Safety, Investor Relations, Planning, and Executive.

## **9. Facilities Cost**

The facilities cost rate is applied on the basis of direct labor charges. The facility cost rate is based on the annual cost structure for corporate facilities, i.e. (Energy Center and South Tryon, Plainfield, Cincinnati office buildings, and Progress Energy office buildings), and the number of employees occupying these facilities to arrive at an average facility cost.

## **10. Supervisory Costs**

The supervisory cost rate is applied on the basis of direct labor charges. The supervisory cost rate represents the cost of supervision related to a Regulated Utilities employee performing work for an Affiliate Business unit. The basis for determining such costs is through the analysis of supervisory labor cost as a factor of Regulated Utilities employee labor cost.

### **D. Premium Services (Non-affiliate transactions)**

Premium services are unregulated services provided by DEC/DEP to its electric customers. All costs related to premium services are either direct-charged or allocated to non-utility accounts. Costs identified in subsections C.1. through C.4. above are automatically allocated based on labor charges to premium services processes. An additional multiplier rate is also applied to labor charged to these premium services processes to cover costs such as facilities, administrative and corporate overheads, employee training and supervision, and shared services.



## J. UTILITY TO UTILITY COST DISTRIBUTION DETAILS

The following are Utility allocations that run on Duke Energy Carolinas and Duke Energy Progress:

Utility Level Allocations										Total DEC	DEO Total	DEK Total	DEJ Total	Compl Pwr Total	Total DEP	Total DEF	Total
Function	Function Description	Allocation Method	Operating Unit (OU)	SI	CU												
1 Electric System Maintenance	Coordinates maintenance and support of electric transmission and distribution systems.																
	Services related to transmission system:	Circuit Miles of Electric Transm Lines Ratio	CTTR	C10		40.76	7.43	0.33	16.40	-	19.19	15.89	100.00				
			PTTR	C10		40.76	7.43	0.33	16.40	-	19.19	15.89	100.00				
			CTDC	C99		67.98	-	-	-	-	32.02	-	100.00				
			PTPC	C99		67.98	-	-	-	-	32.02	-	100.00				
	Services related to distribution system:	Circuit Miles of Electric Dist. Lines Ratio	CTDI	C10		39.31	6.45	1.12	11.49	-	25.35	16.28	100.00				
			PTDI	C10		39.31	6.45	1.12	11.49	-	25.35	16.28	100.00				
			CDCC	C99		60.80	-	-	-	-	39.20	-	100.00				
			DPFC	C99		60.80	-	-	-	-	39.20	-	100.00				
				C99		-	-	-	-	-	-	-	-				
5 Marketing and Customer Relations	Advises the Client Companies in relations with domestic utility customers.					-	-	-	-	-	-	-	-	-	-	-	-
	Design and administration of sales and demand-side management programs.	Number of Customers Ratio	CTSD	C17		53.23	24.33	5.10	17.34	-	-	-	100.00				
			PCSD	C02		53.23	24.33	5.10	17.34	-	-	-	100.00				
			PFSD	C76		53.23	24.33	5.10	17.34	-	-	-	100.00				
			CNET	C76		60.01	17.07	3.38	19.54	-	-	-	100.00				
			PCNT	C03		60.01	17.07	3.38	19.54	-	-	-	100.00				
			PFNT	C05		60.01	17.07	3.38	19.54	-	-	-	100.00				
			CSTD	C17		53.23	24.33	5.10	17.34	-	-	-	100.00				
			CTWT	C76		33.77	9.61	1.90	11.00	-	20.45	23.27	100.00				
			PCNA	C76		33.77	9.61	1.90	11.00	-	20.45	23.27	100.00				
			PFNA	C76		33.77	9.61	1.90	11.00	-	20.45	23.27	100.00				
	Customer meter reading, billing and payment processing.	Number of Customers Ratio	CTMR	C17		53.23	24.33	5.10	17.34	-	-	-	100.00				
			PCDA	C02		53.23	24.33	5.10	17.34	-	-	-	100.00				
			PFDA	C83		53.23	24.33	5.10	17.34	-	-	-	100.00				
			CUMR	C19		31.52	14.40	3.02	10.26	-	19.09	21.71	100.00				
			PCMR	C03		31.52	14.40	3.02	10.26	-	19.09	21.71	100.00				
			PFMR	C83		31.52	14.40	3.02	10.26	-	19.09	21.71	100.00				
			CMHR	C09		-	52.03	10.90	37.07	-	-	-	100.00				
	Customer services including the operation of call center.	Number of Customers Ratio	CEMR	C34		-	42.69	8.45	48.86	-	-	-	100.00				
6 Electric Transmission & Distribution Engineering & Construction	Designs and monitors construction of electric transmission and distribution lines and substations. Prepares cost and schedule estimates, visits construction sites to ensure that construction activities coincide with plans, and administers construction contracts.					-	-	-	-	-	-	-	-	-	-	-	-
	Transmission engineering and construction:	(Electric Transmission Plant's) Construction - Expenditures Ratio	CTET	C18		28.10	4.94	0.61	13.19	-	21.37	31.79	100.00				
			PTET	C18		28.10	4.94	0.61	13.19	-	21.37	31.79	100.00				
	Distribution engineering and construction:	(Electric Distribution Plant's) Construction - Expenditures Ratio	CTED	C19		35.10	9.74	1.84	9.90	-	20.28	23.14	100.00				
			PTED	C19		35.10	9.74	1.84	9.90	-	20.28	23.14	100.00				
				C19		-	-	-	-	-	-	-	-				
7 Power Engineering & Construction	Designs, monitors and supports the construction of electric generation facilities. Prepares specifications and administers contracts for construction of new electric generating units or improvements to existing electric generating units. Prepares cost and schedule estimates and visits construction sites to ensure that construction activities coincide with plans.	(Electric Production Plant's) Construction - Expenditures Ratio	CTCE	C25		27.15	-	1.13	32.53	-	14.77	24.42	100.00				
				C25		-	-	-	-	-	-	-	-				

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17	Power Planning and Operations	Coordinates the planning, management and operation of Duke Energy Corporation's electric power systems. The activities of the Function include: System Planning - planning of additions and retirements to Duke Energy Corporation's electric generation, transmission and distribution systems. Generation planning: Transmission planning: Transmission planning: Distribution planning:	<i>Elec Peak Load Ratio</i> <i>Elec Peak Load Ratio</i> <i>Elec Peak Load Ratio</i> Weighted Avg of the Circ Miles of ED Lines Ratio and the Elec Peak Load Ratio	CTGE CTTP PTTP CTDP	0.11 0.12 0.12 0.01	-	-	-	-	-	-	-	-	-							
						36.57	-	1.78	12.80	3.09	25.94	19.82	100.00								
						37.14	7.01	1.36	12.00	-	22.54	19.95	100.00								
						37.14	7.01	1.36	12.00	-	22.54	19.95	100.00								
						38.23	6.73	1.24	11.75	-	23.94	18.11	100.00								
						-	-	-	-	-	-	-	-								
						-	-	-	-	-	-	-	-								
						-	-	-	-	-	-	-	-								
						-	-	-	-	-	-	-	-								
						-	-	-	-	-	-	-	-								
	Distribution planning:	Weighted Avg of the Circ Miles of ED Lines Ratio and the Elec Peak Load Ratio	PTDP	0.01	38.23	6.73	1.24	11.75	-	23.94	18.11	100.00									
													-	-	-	-	-	-	-	-	
													-	-	-	-	-	-	-	-	
													-	-	-	-	-	-	-	-	
													-	-	-	-	-	-	-	-	
													-	-	-	-	-	-	-	-	
													-	-	-	-	-	-	-	-	
													-	-	-	-	-	-	-	-	
													-	-	-	-	-	-	-	-	
													-	-	-	-	-	-	-	-	
Power Planning and Operations	System Operations - coordination of the energy dispatch and operation of Duke Energy Corporation's electric generating units and transmission and distribution systems. Generation Dispatch: Transmission Operations: Distribution Operations: Power Operations - provides management and support services for Duke Energy Corporation's electric generation system. Wholesale Power Operations - coordination of Duke Energy Corporation's wholesale power operations.	<i>Sales Ratio</i> Weighted Average of the Circ Miles of Elec Transm Lines Ratio and the Elec Peak Load Ratio Weighted Avg of the Circ Miles of ED Lines Ratio and the Elec Peak Load Ratio Generating Unit MW Capability /PNUC Ratio <i>Sales Ratio</i>	CTGD CTTD CTDO CEPO CRPO CTWH	0.02 0.01 0.02 0.05 0.03	26.25 38.96 38.23 28.49 -	-	2.45 0.84 1.24 2.59 -	19.44 14.20 11.75 20.24 -	-	24.95 20.87 23.94 23.46 100.00	26.91 17.92 18.11 25.22 -	100.00 100.00 100.00 100.00 100.00									
													-	-	-	-	-	-	-	-	
													-	-	-	-	-	-	-	-	
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													-	-	-	-	-	-	-	-	
													-	-	-	-	-	-	-	-	
18	Environmental, Health and Safety	Establishes policies and procedures and governance framework for compliance with environmental, health and safety ("EHS") issues, monitors compliance with EHS requirements and provides EHS compliance support to the Client Companies' personnel.	<i>Sales Ratio</i>	CTEA	0.07	31.73	15.83	2.98	12.65	-	21.78	15.04	100.00								
														-	-	-	-	-	-	-	-
														-	-	-	-	-	-	-	-
														-	-	-	-	-	-	-	-
20	Rails	Procures coal, gas and oil for the Client Companies. Ensures compliance with price and quality provisions of fuel contracts and arranges for transportation of the fuel to the generating stations.	<i>Sales Ratio</i>	CTHS	0.08	26.25	-	2.45	19.44	-	24.95	26.91	100.00								
														-	-	-	-	-	-	-	-
														-	-	-	-	-	-	-	-
														-	-	-	-	-	-	-	-
	Nuclear	Provides general support services for the Nuclear fleet.	Generating Unit MW Capability /PNUC Ratio	CHNE PNUC PNUF	0.05 0.04 0.01	61.70 61.70 61.70	-	-	-	-	30.70 30.70 30.70	7.60 7.60 7.60	100.00 100.00 100.00								
														-	-	-	-	-	-	-	-
														-	-	-	-	-	-	-	-
														-	-	-	-	-	-	-	-

## **K. GUIDELINES AND PROCEDURE FOR CHARGING DEC/DEP FOR COSTS ORIGINATING WITH UTILITY AFFILIATES EXCLUDING THE SERVICE COMPANY**

On occasion, Utility Affiliate (Duke Energy Indiana, Duke Energy Kentucky, Duke Energy Ohio-Transmission and Distribution or Duke Energy Florida) employees may be requested to provide support, subject to availability, to DEC/DEP. Affiliate management is responsible for ensuring that the use of all company resources to support DEC/DEP is properly charged to DEC/DEP. The Utility Affiliate will charge its fully distributed cost to DEC/DEP. Charging DEC/DEP fully distributed cost is normally accomplished with the application of a percentage loaded on direct labor charges. Other charges may be made separately to account for vehicle charges, employee expenses, materials and supplies, contract services, etc. The Utility Affiliate management is accountable for the review and approval of all charges from the Utility Affiliate in support of DEC/DEP work. An Affiliate Rules and Transactions CBT (emphasis on Duke Energy Carolinas) is available in the Training Connection on the Portal.

Please reference Section I which addresses the October 2013 filing that eliminated the need for a utility affiliate loader between DEC and DEP.

The following procedure addresses employees' and management's responsibilities.

#### **A. General Guidelines**

1. Hours worked by the Utility Affiliate employees in direct support of DEC/DEP are charged directly to DEC/DEP.
2. First-line supervisors should review and approve, when appropriate, source documentation resulting in a charge by Utility Operations to DEC/DEP (timesheets, employee expenses, etc.).
3. First-line supervisors/managers are responsible for reviewing any reports that detail monthly charges to their responsibility center. These reports would include any charges incurred by the responsibility center to DEC/DEP.
4. Utility Affiliate to DEC/DEP transactions typically require the completion and approval of a Service Request form, unless DEC or DEP is requesting the service from the other. The process and eForm can be found on the Portal under Rates & Regulatory.

#### **B. Time Reporting**

When a Utility Affiliate employee supports DEC or DEP:

1. Hours worked by the Utility Affiliate employees in direct support of DEC/DEP are charged directly to DEC/DEP.
2. Management approvals are required for non-exempt employee timesheets, as well as exempt employee timesheets for vacation carryover or paid supplemental compensation.
3. The financial system will automatically load time reported to DEC/DEP with labor loads including fringe benefits, payroll taxes, incentive pay, and unproductive time, as applicable. If market value is to be charged, journal entries will be made by the Regulated Utility Financial Planning & Analysis group to appropriately adjust the costs to market. The overhead cost factor includes the following components: department administrative overheads, corporate governance, employee training, Service Company-related shared services, facilities, and supervisory costs.

## **C. Labor Allocations**

Utility Affiliate employees provide services to DEC/DEP at fully distributed cost. The mechanism for charging DEC/DEP is generally a cost adder applied to labor charges and a market value journal entry if applicable. Allocation rates described in items 1 through 10 below are applied as a cost factor to direct labor charged to DEC/DEP. Below are the various cost components of labor loads. The rates for Items 1-4 may be adjusted during the year to properly accrue the associated actual or anticipated cost. Items 5-10 are components of Duke Energy's Regulated Utilities labor cost multiplier and are updated annually.

### **1. Fringe Benefit Allocation**

Fringe benefits are employee benefits such as retirement and medical and dental insurance. These costs are generally accrued as they are earned. Actual fringe benefit costs are charged to the appropriate administrative and general FERC account. These costs are then allocated via a loading factor that is based on labor. This allows the proper distribution of fringe benefits between operating and capital projects as well as among business units.

### **2. Payroll Tax Allocation**

Payroll taxes include state unemployment, federal unemployment, social security and Medicare respective to each Utility Affiliate. Payroll taxes are accrued as they are incurred. Actual payroll taxes are charged to the appropriate payroll tax account. These costs are then allocated via a loading factor that is based on labor. This allows the proper distribution of payroll tax between operating and capital projects as well as among business units.

### **3. Incentive Allocation**

Incentives are allocated via a loading factor applied to direct labor charges by each Utility Affiliate employee performing work for DEC/DEP.

### **4. Unproductive Cost Allocation**

An unproductive cost allocation is applied on the basis of direct labor charges by each Utility Affiliate employee performing work for DEC/DEP. Each Utility Affiliate allocates unproductive costs pro rata to direct labor, either via a monthly ratio or standard rates.

It is Duke Energy's intent to calculate Items 5-10 below on a total Regulated Utilities basis with the calculations to be performed annually. Annualized costs (either historic or projected), which best align with the current organization will be used in the calculations. See *I. Guidelines and Procedures for Charging Affiliate for Costs Originating with DEC/DEP* details of Items 5-10. Items 5-10 do not apply to transactions between DEC and DEP.

- 5. Administrative Overheads
- 6. Corporate Governance
- 7. Employee Training Costs
- 8. Service Company Costs
- 9. Facilities Cost
- 10. Supervisory Costs

## **L. GUIDELINES AND PROCEDURE FOR CHARGING DEC/DEP FOR COSTS ORIGINATING WITH NON-REGULATED AFFILIATES**

On occasion, employees of Non-Regulated Affiliates may be requested to provide support, subject to availability, to DEC/DEP. (Non-Regulated Affiliates' management is responsible for ensuring that use of all company resources to support DEC/DEP work is properly charged to DEC/DEP.) Rules regarding affiliate agreements between Non-Regulated Affiliates and DEC/DEP are described in E. *Guidelines for Transactions Between DEC/DEP and Affiliates* incorporated in this CAM. Non-Regulated Affiliates will charge DEC/DEP the lower of fully distributed cost or market value as appropriate. Charging DEC/DEP either market or fully distributed cost is normally accomplished with the application of a percentage loaded on direct labor charges. Other charges may be made separately to account for vehicle charges, employee expenses, materials and supplies, contract services, etc. Non-Regulated management is accountable for the review and approval of all charges from Non-Regulated Affiliates in support of DEC/DEP's work. The following procedure addresses employees' and management's responsibilities.

The following procedure addresses employee's and manager's responsibilities.

### **A. General Guidelines**

1. Hours worked by employees of Non-Regulated Affiliates in direct support of DEC/DEP are charged directly to DEC/DEP.
2. First-line supervisors should review and approve, when appropriate, any source documentation resulting in a charge by Non-Regulated Affiliates to DEC/DEP (timesheets, employee expenses, etc.).
3. First-line supervisors are responsible for reviewing reports that show monthly charges to their responsibility center. These reports would include charges incurred by the responsibility center to DEC/DEP.
4. Non-Regulated to DEC/DEP transactions typically require the completion and approval of a Service Request form. The process and eForm can be found on the Portal under Rates & Regulatory.

## **B. Time Reporting**

When a Non-Regulated employee supports DEC or DEP:

1. Hours worked by Non-Regulated employees in direct support of DEC or DEP are charged directly to DEC or DEP.
2. Management approvals are required for non-exempt employee timesheets, as well as exempt employee timesheets for vacation carryover or paid supplemental compensation.
3. The financial system will automatically load time reported to DEC or DEP with labor loads including fringe benefits, payroll taxes, incentive pay, and unproductive time, as applicable. If market value is to be charged, journal entries will be made by the Non-Regulated Affiliate's financial group to appropriately adjust the costs to market.

## **C. Labor Allocations**

Non-Regulated employees provide services to DEC or DEP at the lower of fully distributed cost or market value. The mechanism for charging DEC or DEP is generally a cost adder applied to labor charges. When appropriate to charge market, a market value journal entry is made. Allocation rates described in items 1 through 10 may be applied as a cost factor to direct labor when charging DEC/DEP.

Below are the various cost components of labor loads which may be applied to labor when Non-Regulated Affiliates do work for and charge DEC or DEP. The rates for Items 1-4 (specific to Non-Regulated Affiliates) may be adjusted during the year to properly accrue the associated actual or anticipated cost. Items 5-10 may also be included as components of Non-Regulated Affiliates' labor cost multiplier.

### **1. Fringe Benefit Allocation**

Fringe benefits are employee benefits such as retirement and medical and dental insurance. These costs are generally accrued as they are earned. Actual fringe benefit costs are charged to the appropriate administrative and general FERC account. These costs are then allocated via a loading factor that is based on labor. This allows the proper



distribution of fringe benefits between operating and capital projects as well as among business units.

**2. Payroll Tax Allocation**

Payroll taxes include state unemployment, federal unemployment, social security and Medicare. Payroll taxes are accrued as they are incurred. Actual payroll taxes are charged to the appropriate payroll tax account. These costs are then allocated via a loading factor that is based on labor. This allows the proper distribution of payroll tax between operating and capital projects as well as among business units.

**3. Incentive Allocation**

Incentives are allocated via a loading factor applied to direct labor charges by the Non-Regulated employee performing work for DEC or DEP.

**4. Unproductive Cost Allocation**

An unproductive cost allocation is applied on the basis of direct labor charges by the Non-Regulated employee performing work for DEC or DEP. Non-Regulated Affiliates allocate unproductive costs pro rata to direct labor, either via a monthly ratio or standard rates.

*See I. Guidelines and Procedures for Charging Affiliate for Costs Originating with DEC/DEP details of Items 5-10.*

- 5. Administrative Overheads
- 6. Corporate Governance
- 7. Employee Training Costs
- 8. Service Company Costs
- 9. Facilities Cost
- 10. Supervisory Costs

## **M. TYPICAL TRANSACTIONS BETWEEN DEC/DEP AND AFFILIATES COVERED UNDER SEPARATE AGREEMENTS**

The following are some of the typical transactions that DEC or DEP conducts with one another or their affiliates under separate agreements not otherwise discussed in this manual. These agreements and others can be found on the [Rates and Regulatory Portal](#) page.

### **A. Bison Insurance (DEC)**

Duke Energy's Insurance program requires that costs be identified and allocated to the business units based upon their contributions to the risk of the entire company. The programs are designed to encourage risk control, early claims reporting, and efficient claims management and allow for cost-based pricing.

This is accomplished by transferring the insurable losses across the company to the captive insurance companies, generally after a small business unit deductible is met. The captives also reinsure their risk in excess of its retention (an additional deductible) with unrelated third party reinsurance companies. The captives charge premiums to business units that participate in the program to cover the aggregate cost of reinsurance and the estimated retained losses at the captives. This works essentially the same way commercial insurance works where the losses of a few are covered by the premiums of many.

The primary types of costs to be allocated are:

- retained losses and related loss adjustment expenses
- insurance premiums

Duke Energy has developed specific premium calculation methodologies for each line of coverage (i.e. general liability, property, workers' compensation and directors and officers), which is similar to how commercial insurance underwrites risk.

Insurance premiums (costs) are generally allocated on a blended basis of exposure and historical loss experience (frequency and severity).

**B. Intercompany Asset Transfer Agreement**

Agreement among Duke Energy Carolinas, LLC, Duke Energy Progress, Progress Energy Florida, Inc., Duke Energy Ohio, Inc., Duke Energy Indiana, Inc. and Duke Energy Kentucky, Inc. regarding the transfer of assets, compensation, payment, warranties and indemnification.

**C. Tax Sharing Agreement**

Duke Energy Corporation, as parent of a consolidated group of companies, files federal income taxes on behalf of its affiliates who are members of its consolidated group. Under Duke Energy Corporation's Tax Sharing Agreement, which is applicable to all members of Duke Energy's consolidated group, income taxes allocable to Duke Energy Corporation are accrued by it and consolidated group members on a stand-alone basis.

**D. Utility Money Pool Agreement**

Establishes a cash management program (the "Utility Money Pool") to coordinate and provide for certain short-term cash and working capital requirements.

**E. Facilities (DEC)**

Provides for the lease of certain office space by DEBS in buildings owned by DEC.

**F. Asset Management and Delivered Supply Agreement (AMA)**

Provides for DEC to be the asset manager for all natural gas supply and capacity for both DEC and DEP. The AMA facilitates coordination and optimization of natural gas capacity and supply rights owned by DEC and DEP to reduce the cost of providing electric service to both DEC's and DEP's native load customers.

## **N. OTHER**

### **A. Audit Principles & Guidelines**

An audit trail shall exist with respect to transactions between DEC/DEP and its affiliates.

Corporate Audit Services will have complete access to affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with established policies and procedures and regulatory requirements. Auditors will have complete access to affiliate records to ensure availability of relevant information necessary to evaluate whether subsidization exists. The auditors, not the individual affiliates, will determine what is relevant for a particular audit objective. Limitation of access would compromise the audit process and impair audit independence.

Cost allocation documentation will be made available to Corporate Audit Services for periodic review of the allocation policies and procedures and to any jurisdictional regulatory authority when appropriate and upon request. Any entity required to provide access to its books and records can, and is encouraged to, make arrangements as necessary and appropriate to ensure that competitively sensitive information provided in the course of the audits be kept confidential by Corporate Audit Services and/or regulatory authorities.

Transactions between DEC/DEP and its Affiliates/NUOs will be reviewed at a minimum annually by Corporate Audit Services.